





Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

C. P. A. Auditing Questions

To January 1, 1914

Comprising All the Available Examination Questions
in Auditing That Have Been Set by C. P. A.
Examining Boards Up To and Including
December 31, 1913

COMPILED BY

HARRY C. BENTLEY, C. P. A.



THE RONALD PRESS
COMPANY

NEW YORK
THE RONALD PRESS COMPANY

1914

HF 5667
.B4

COPYRIGHT, 1914,
BY
HARRY C. BENTLEY

TO THE
LIBRARY OF THE
CITY OF NEW YORK

The William G. Hewitt Press
Brooklyn, New York

PREFACE

This compilation involved the inspection of the available C. P. A. questions in auditing, which have been set up to January 1, 1914, by boards of examiners of the thirty-two states having C. P. A. laws. Duplicate questions have been eliminated, the questions retained being credited, as far as possible, to the state boards by which they were originally propounded. In some cases questions are included which partially duplicate others but which include some essential features not stated elsewhere. It is the writer's intention to publish the answers to these questions in a subsequent volume.

The following tabulation shows the total number of audit questions set by each state board of examiners up to and including December, 1913, and the number of original questions selected by the author. The balance may be said to represent duplicate questions; *e. g.*, New York leads with a total of 525 questions, of which 309 are originals, leaving 216 as representing duplicates (about 41 per cent).

From the totals of this tabulation it will be seen that the total number of available C. P. A. questions in auditing up to January, 1914 (and including Maine questions for January, 1914), is 1,353, of which 705 are originals and 648 are duplicates (about 48 per cent).

In the opinion of the writer the C. P. A. boards of examiners are to be congratulated upon having propounded such a large number of excellent questions.

STATES HAVING C. P. A. LAWS

State	C. P. A. Law Enacted	Number of Exam- inations Set to January 1, 1914, of Which Questions Are Available	Total Audit Questions Available to January 1, 1914	Total Original Questions Selected by Author
New York.....	1896	35	525	309
Pennsylvania (a)....	1899	18	186	160
Maryland (b).....	1900	3	35	1
California*	1901			
Washington (c)....	1903	2	18	10
Illinois	1903	14	143	101
New Jersey (d)....	1904	5	10	4
Michigan (e).....	1905	5	50	20
Florida	1905	5	75	31
Rhode Island*.....	1906			
Utah*	1907			
Colorado (f).....	1907	1	10	9
Connecticut*	1907			
Ohio	1908	6	61	18
Louisiana (g).....	1908	1	13	4
Georgia (h).....	1908	1	10	4
Montana*	1909			
Missouri (i).....	1909	2	24	19
Minnesota	1909	4	63	21
Nebraska*	1909			

*Questions not available.

(a) Beginning in November, 1907, the Pennsylvania board of examiners discontinued setting questions under the three subdivisions of accountancy (Theory of Accounts, Auditing, and Practical Accounting) and adopted the plan of setting questions under the one heading of "General Accounting." Until that time 110 questions in auditing had been set. Since that time questions in auditing have been included in the general accounting examinations. The author has taken from the general accounting examination papers in 1907-1914 such questions as might be included under auditing, consisting of 76 questions, of which he has selected 56.

(b) Questions prior to 1909 not available.

(c) Questions set by the board of examiners of the state of Washington are available only for the years 1908 and 1913. The former included eight questions in auditing, of which three were selected by the author. The latter did not include questions under the three usual headings (Theory, Auditing, and Practical Accounting), the board of examiners having adopted the excellent plan inaugurated by the Pennsylvania board in 1907, of setting one examination in general accounting. From the 1913 examination the author has selected seven out of a possible ten.

(d) New Jersey questions are available only for the years 1904-1909.

(e) Only five sets of Michigan C. P. A. questions are available, including the last one given in 1913.

(f) Colorado questions available for 1913 only.

(g) Louisiana questions available for 1913 only.

(h) Selected questions from various examinations by the Georgia board of examiners are published in book form, including ten questions in auditing. Of this number the author has selected four.

(i) Missouri questions available for 1912 and 1913 only.

STATES HAVING C. P. A. LAWS

State	C. P. A. Law Enacted	Number of Exam- inations Set to January 1, 1914, of Which Questions Are Available	Total Audit Questions Available to January 1, 1914	Total Original Questions Selected by Author
Virginia	1910	3	31	8
Massachusetts	1910	5	75	30
West Virginia*.....	1911			
Vermont†	1912			
Tennessee*	1913			
Oregon*	1913			
North Carolina.....	1913	1	14	9
North Dakota†.....	1913			
Nevada†	1913			
Maine†	1913	1	10	7
Delaware†	1913			
Wisconsin†	1913			
Totals.....		112	1,353	705

*Questions not available.

†No examinations set prior to 1914. (First Maine examination held January 27, 1914.)

Taken collectively, these questions exhaust practically all the fundamental principles of auditing in theory and practice, and cover the subject very broadly in its relation to audits, examinations, and special investigations of various lines of business.

In this latter field the questions are perhaps open to criticism. In order to answer all the questions embodied in this compilation correctly, the accountant must be prepared to explain in detail how to audit the books and accounts of the following:

- Trading (various lines)
- Manufacturing (various lines)
- Fire insurance company
- Savings bank
- Executor of an estate

Building and loan association
Street railway and electric lighting company
Gas company
Trust company
National bank
Stock broker
Municipality
Commission house
Wholesale dry-goods company
Railroad
Department store
Real estate development company
Life insurance company
Coal mining company
Contractor and builder
Construction company
Trustee of an estate
Theatre
Milling company
Tax collector's accounts
Water registrar's accounts
Accounts for professional men
Clubs and associations
Grocery store
Lumber company
Gold mining company

There are probably few practitioners who could give an authentic and detailed treatise upon the audit of each of the foregoing. It does not come within the province of the ordinary accountant's professional experience to audit or to become familiar with the accounting methods of such a **varied** line of activities, for the above list covers a very **broad** field.

Also the audit or examination of national banks and trust companies constitutes a specialty, and one who is not familiar with the inside workings of these financial institutions is not prepared to carry on an audit or examination in the most efficient manner, regardless of his professional experience in other lines. The same holds true with respect to brokers' accounts and railroad accounts.

It is the writer's contention that C. P. A. questions should not deal too much with specific lines of business, nor with exceptions to general practice. Mercantile and manufacturing businesses furnish the great bulk of the professional accountant's clientele. To judge a man's fitness to become a C. P. A. through questions dealing with bank examinations, or audits of brokers' accounts, railroad accounts, fire or life insurance accounts, or special rulings of state or federal commissions, is to subject him to a test that does not prove his general fitness, and that places a premium on exceptions to general practice. The questions worth while are the questions which test one's knowledge of fundamental principles, one's ability to reason logically, and one's knowledge to carry out the sort of work intelligently which a man with the practical experience required in the C. P. A. law of a given state might reasonably be expected to perform.

Nor should the requirements for admission to C. P. A. ranks be placed too high. The general public does not consider that because a young professional man is permitted by law to practice as a lawyer, physician, or dentist, that he is as capable as those of his profession who have had a broad professional experience; nor does the general public consider that the title of Certified Public Accountant alone is a conclusive measure of one's ability as an accountant. That is a matter of degree which no sort of legislation can regulate beyond a fair starting point. The C. P. A. laws

of our various states do not, at least by their wording, contemplate that candidates for the degree shall possess a knowledge of accounting at all commensurate with that of a thoroughly capable professional accountant, else a longer practical experience would be required. Certain it is that three years' experience is not sufficient to develop a broad, practical knowledge of accountancy in all its branches. It would seem, therefore, that if higher standards are to be set in examinations the laws should be revised so that the requirements for practical experience may be consistent with such raised standards. Otherwise the examinations should be prepared with the thought in mind that a matter of two or three years' experience does not ordinarily prepare one to answer questions which would severely tax the knowledge of practitioners of ten years' experience.

It is highly desirable that in each set of C. P. A. questions there should appear a reasonable number which have been included in previous C. P. A. examinations, especially in connection with such a technical and broad subject as auditing. The boards of examiners are to be praised for their broad-minded policy in carrying out this important feature, and in permitting their questions to be made public. It would seem that any man who can answer 70 per cent of the questions included in this volume deserves a C. P. A. degree in so far as his knowledge of auditing is concerned, and examiners who include in their sets of questions 50 per cent or more of those that have been asked heretofore are giving the candidates a fair chance to profit by studying precedents.

The boards of C. P. A. examiners have made the subject of auditing just what it should be—the final summing up of all accounting principles. Their finest efforts are shown here, and of these they may well feel proud.

The writer wishes to express to the various state boards of examiners his sincere appreciation of their kindness in furnishing him with the questions set by them and their predecessors. Without their aid the present compilation would not have been possible.

HARRY C. BENTLEY

Boston, Mass.,

May 1, 1914

LIST OF STATES

	PAGE
Colorado	185
Florida	175
Georgia	194
Illinois	133
Louisiana	193
Maine	225
Maryland	117
Massachusetts	213
Michigan	168
Minnesota	204
Missouri	196
New Jersey.....	166
New York.....	11
North Carolina.....	223
Ohio	187
Pennsylvania	73
Virginia	210
Washington	118

C. P. A. Auditing Questions

NEW YORK

Question 1

How may it be determined whether certain expenditures of a manufacturing business were of the nature of maintenance and repairs or constituted an actual betterment of the plant? State how in each case they should be dealt with in the balance sheet and in the profit and loss account.

Question 2

In auditing the accounts of a business for the first time what books should be produced? What would be the first duty of the auditor respecting these books?

Question 3

In an audit stipulating for the examination of all vouchers of every description, what would be proper vouchers for the following: purchases, return purchases, sales, return sales, cash receipts, cash payments, journal entries?

Question 4

Give a brief outline of the duties of an auditor, and of his responsibilities.

Question 5

What means should be employed to detect the wilful omission to enter in the books under audit, sales made or cash received?

Question 6

What evidence should be required as to the correctness of values of assets (other than customers' accounts) entered in the books?

Question 7

State what is necessary in auditing cash payments, and how to prevent the reproduction and passing of vouchers a second time.

Question 8

State what examination should be made of the receivable book accounts of a firm or company to ascertain what accounts, if any, should be written off as bad.

Question 9

In auditing the accounts at the conclusion of the first fiscal year of a corporation formed to acquire an established business, what documents and records should be examined in addition to the ordinary books and subjects of an audit?

Question 10

To what extent should an auditor hold himself responsible for the correctness of (a) inventories, (b) pay-rolls, (c) depreciations and discounts?

Question 11

On what basis should the following assets be valued in the preparation of a balance sheet: (a) manufactured goods, (b) partially manufactured goods, (c) raw material, (d) open book accounts receivable, (e) stocks, bonds, and other investments, (f) bills receivable?

Question 12

State the objects to be attained by an audit.

Question 13

How should one proceed in order to ascertain that all the liabilities are shown in a balance sheet?

Question 14

How should the interest received on a bond bought at a premium be treated?

Question 15

Should a reserve fund be invested in interest-bearing securities? State the custom. If so invested, what account should be credited with the income?

Question 16

In an audit of the accounts of a firm or of a corporation, how may the cash as shown by the bank pass book be reconciled with the amount called for by the cash book or ledger? After this course has been taken, is it necessary to check the pass book with the deposits as shown by the cash book? What might such detailed checking show?

Question 17

How may fraud in payment of wages be detected?

Question 18

In a statement of the earnings of a business to be sold on the basis of its earning capacity, how should the question of interest paid on accounts payable, on bills payable, and on loans be treated?

Question 19

State a method of procedure in an examination of securities consisting of bonds, stocks, and bills receivable.

Question 20

In an audit of a railway company's accounts, how should it be determined that the net earnings are correctly stated?

Question 21

State what items may properly be charged to Construction account, after a railway has been in operation for some years.

Question 22

In the books of a railway company what provision should be made for destroyed equipment?

Question 23

What test should be made of the prime cost of manufactured goods to guard against loss of raw material through theft by employees?

Question 24

In an inventory how should stock purchased on credit, subject to usual discounts, be valued?

Question 25

State briefly a proper course of procedure for making a correct audit of the books and accounts of (a) a manufacturing business, (b) a fire insurance company, (c) a bank.

Question 26

The check book of a company shows cash in bank \$12,500, bank pass book for the same date shows \$14,000; which is correct and which amount should be included in the balance sheet?

Question 27

Under what circumstances should deduction be made for depreciation? What classes of assets are most subject to depreciation?

Question 28

An insurance company buys for investment \$50,000 7% 10-year bonds at 116. Should this purchase be entered in the balance sheet at par or at cost price? If the latter, what should be done with the premium, in view of the fact that the bonds will be paid off at par at the expiration of 10 years?

Question 29

In the case of an audit of the books of a corporation where the volume of transactions is so large that a detailed checking of postings and footings is out of the question, what course should be pursued in the examination in order to insure the correctness of the balance sheet?

Question 30

If in the course of an audit it should be found that capital expenditures had been charged up against Profit and Loss account, or items of expense against Improvement account, what would be the duty of the auditor in respect to such charges?

Question 31

How should goods sent out on consignment be treated in the books of a company? When the goods have been sold and the consignee sends in his account sales, what entries should be made to give effect to the transactions?

Question 32

If any payments are received by a company on account of work in process, how should such payments on account be shown in the balance sheet?

Question 33

In an audit of the books of a company, how may the correctness of the following items in the balance sheet be determined: (a) outstanding accounts, (b) securities, (c) inventory of finished stock and raw materials, (d) bank balances, (e) creditors' open accounts, (f) creditors' bills payable?

Question 34

A company has caused to be made a revaluation of its buildings, plant, and machinery, and it is found that the new values are greater than those shown by the books; what does this larger value indicate, and how should such excess be treated in the books of the company? What entries should be made to give effect to these conditions in (a) the balance sheet, (b) the profit and loss account?

Question 35

A manufacturing corporation desires a certificate of its average annual profits for three years; after charging up all costs, expenses, and depreciation, and an allowance for bad

debts, it is found that the profits for the first year were \$62,000, for the second year \$64,000 plus \$10,500 profit on sale of investments, and for the third year \$72,000 plus \$8,400 profit on the sale of real estate. Give the annual average profit to be certified.

Question 36

In some kinds of business the expenditure on repairs and renewals account varies considerably from year to year; how should this expenditure be dealt with in the books of the company so that the profits need not fluctuate by reason of this variable expenditure?

Question 37

In an audit of the books of a company it is found that the president's salary account is credited with a bonus of \$5,000 for "extra services," in addition to the usual salary paid him; what steps should be taken to ascertain that this item is correct?

Question 38

The Profit and Loss account of a manufacturing company for six months ending June 30, 1896, contains on the debit side, (a) stock on hand January 1, 1896, (b) purchases of raw material, (c) manufacturing expenses, (d) expenses of selling; on the credit side, (e) sales, (f) stock on hand June 30. Does the balance of these amounts constitute the net profit for the six months, or should other charges be taken into account? If so, state them.

Question 39

An audit of a set of books for the half year ending December 31 is begun January 26; what course should be pursued to prove the correctness of the cash on hand December 31?

Question 40

How should doubtful debts be treated in a balance sheet? Give a convenient method of ascertaining whether accounts receivable are good, bad, or doubtful.

Question 41

How should leases be treated in the balance sheet and in the profit and loss account of a company?

Question 42

State which of the following should be charged to Capital account and which to Revenue account: (a) repairs to machinery and plant, (b) replacements of plant, (c) new plant purchased, (d) cost of leasehold premises, (e) partners' salaries.

Question 43

A manufacturing company takes out and sells a quantity of old machinery and replaces it by new; what accounts should be credited with the proceeds of the sale? Give reasons.

Question 44

Differentiate as fully as possible a Manufacturing account, a Trading account, and a Profit and Loss account, and state what the balance in each case indicates.

Question 45

How should the loss on shares issued at a discount be dealt with in the accounts of a corporation?

Question 46

In examining the books and accounts of a business for the purpose of giving a certificate of the net profits earned

for a number of years, how should interest paid on partners' capital be treated? What other important points should receive attention in order to state the profits net?

Question 47

How may the auditor know that the balance sheet and profit and loss account of a corporation whose books he has audited include all income and expenditures applicable to the year under review?

Question 48

In a large dry-goods business it is considered necessary to divide the bookkeeping in such a way that each ledger shall be balanced separately; how should this be done?

Question 49

Is a trial balance the same as a balance sheet? If not, in what way does it differ?

Question 50

A partnership contract between A and B provides that each partner shall contribute \$25,000 to a new business, and that on any capital brought in by either partner in excess of this amount he shall receive 6%. A contributes \$10,000 additional, and the bookkeeper makes an entry in the books at the end of the year crediting A with 6% on \$10,000, viz., \$600, which is debited to B. Is this correct? Give reasons.

Question 51

What course should be adopted in an audit of the books of a firm where defalcations are suspected?

Question 52

What is the significance of an auditor's certificate of profits of a business about to be sold to a new company? To what extent is an auditor responsible, morally and legally, for his certificates?

Question 53

State what an auditor should do to ascertain if the following assets, appearing in a balance sheet, are taken at a fair value: (a) merchandise, (b) machinery, (c) real estate.

Question 54

State what means should be employed to ascertain if the following assets were properly included in a balance sheet at the valuation given: (a) stocks and bonds, (b) bills receivable, (c) accounts receivable.

Question 55

How may an auditor know that the credits for merchandise returned are bona fide, and not made to conceal a shortage in cash?

Question 56

What classes of salaries and wages should be charged directly against the cost of manufacture? Give reasons.

Question 57

How should the right to remuneration claimed by officers and directors of a corporation be verified?

Question 58

How should the bank balance appearing in the books of a company be verified by the auditor?

Question 59

To what should the discount on bonds sold for construction and the expense of disposing of such bonds be charged? Give reasons.

Question 60

Under what circumstances should paid checks be treated as vouchers? Are checks proper and sufficient vouchers for purchases? Give reasons.

Question 61

What books of a corporation, in addition to the ordinary trade books, should be inspected by the auditor? Why?

Question 62

In auditing the books of a company for the first time after a reorganization, what should an auditor do to verify the opening entries? Give reasons.

Question 63

How may the auditor ascertain the profits for a given period from the books of a company kept on a system of single entry?

Question 64

Is it the duty of an auditor of a bank actually to inspect the securities representing the bank's investments? If so, what course should be adopted in conducting such examination?

Question 65

In the event of such a difference of opinion between auditor and directors concerning the rate of depreciation on plant and machinery as would involve an important

alteration in the proposed rate of dividend, how can the matter be settled to the satisfaction of both parties?

Question 66

Is it a part of the duties of the auditor of the accounts of a stock company to consider the question of depreciation on assets, buildings, machinery, plant, etc.? Give reasons for your answer.

Question 67

In examining cash vouchers in the course of an audit, is it necessary to place your initials or some other distinctive mark on each, and, if so, why?

Question 68

If the cash in hand of a firm or company under audit consists in part of checks received from customers but not deposited in bank, how may the auditor assure himself that such checks are properly included?

Question 69

Describe your mode of procedure in connection with some audit on which you have been engaged. Relate the nature of the business, answering in sufficient detail to enable the examiners to form an opinion regarding your knowledge. Define auditing.

Question 70

What is the value of a bank pass book for the purposes of an audit? To what extent should it be taken as a voucher for cash book entries, or for the balance carried forward?

Question 71

Is there any satisfactory method of auditing accounts not kept by double entry? If so, illustrate the method.

Question 72

In auditing the accounts of a private firm where there are several partners, to what points should the auditor look in order to be assured that the partners' accounts are correctly stated in the balance sheet?

Question 73

State generally your views as to what constitutes capital expenditure and expenditure properly chargeable against revenue. Under what circumstances would an auditor be justified in refusing his certificate of audit?

Question 74

An auditor has to audit the accounts of a firm or company which is a large employer of labor, fixed and extra; state (a) what vouchers the auditor should expect to find, and in the case of the extra labor, how such vouchers should be certified, (b) what course the auditor should recommend his client to adopt to make sure that there were no "dead men" charged on the fixed lists.

Question 75

What reserves should the auditor expect to find set aside out of income, besides those for bad debts and discounts, in the case of (a) a steamship company, (b) a telegraph company?

Question 76

When an auditor employed to adjust the accounts of a firm finds that the current work is behind and that no trial balance has been made for over a year, what course should he pursue, having regard for his own interests as well as for those of the firm?

Question 77

How should the auditor treat a company's accounts with its several agencies at the end of the fiscal year, each agency having been charged with all of the goods shipped to it, and each having some stock remaining on hand?

Question 78

If you were called in to investigate the books of account of a manufacturing concern that contemplated selling its business to a corporation, and were required to report on the net profits of the past five years, what would be your course? How would you ascertain the value of the plant and machinery, and of other assets that might affect the net profits of the period under review? Give an indication of the report you would make.

Question 79

In making up the balance sheet of a firm or corporation, how should the auditor treat goods that (a) have been sent abroad on consignment and remain unsold, (b) are in the hands of agents at home, (c) have been sent out on "sale or return"?

Question 80

You are called in to examine the books of a firm whose bookkeeper and cashier has absconded. He is known to be an embezzler to the amount of at least \$2,000. The books have been kept by double entry and are apparently correct. How would you proceed to determine the total amount of the embezzlement? Mention the different methods that the embezzler might have used to hide his stealings?

Question 81

Should the auditor of a firm or corporation revise the form and wording of the balance sheet to which his certificate is to be attached? Give reasons.

Question 82

Give reasons for or against the necessity of an auditor's verifying the stock ledger of a corporation.

Question 83

In balancing a set of books consisting of cash book, purchase book, sales book, journal, and ledger, the debit side of the trial balance is found to be \$87.19 in excess of the credit side; how should the error be sought?

Question 84

Describe the steps necessary to make a complete audit of a savings bank.

Question 85

Describe the processes of verifying the cash book of a partnership or company by means of the bank transactions.

Question 86

The YCX Co. takes a large number of notes (bills receivable) from its customers, and when in need of funds discounts or sells them; how may the accounts be managed so as to show the company's liability as indorser on the paper discounted?

Question 87

The machinery used by a firm has been purchased on the instalment plan, with monthly payments, and under the

stipulation that the title shall pass only when the last payment has been made. At the close of the fiscal year there are yet several payments to be made. The firm also pays a royalty on the output of some of the machines secured on this plan. How should the auditor in his annual statement deal with the machinery, the instalments paid, and the royalty?

Question 88

Is it an auditor's duty to concern himself, to any extent, with the validity of the transactions that come under his notice? Explain.

Question 89

In auditing a private banking institution, how would you ascertain the amount of checks that have been charged to depositors' accounts, but not presented for payment?

Question 90

In preparing the balance sheet of a business at the close of a year, how should each of the following be treated: (a) bad and doubtful debts, (b) premiums for fire insurance unexpired, (c) interest paid in advance on bills payable discounted, (d) depreciation of factory plant, store and office fixtures, and similar items?

Question 91

Write in proper form an auditor's certificate of correctness.

Question 92

Under what circumstances, if any, would it be proper to open an account with good-will? On finding a good-will

account on the ledger of a business for which you are to prepare the annual statement, how would you treat the account, or what special adjustment would you suggest in regard to it?

Question 93

What check has the auditor on fictitious entries showing purchases, and on returns of goods sold?

Question 94

In auditing the accounts of a gas company, what evidence of the receipt of amounts due from customers should be required?

Question 95

Should any fluctuation in the valuation of permanent assets be permitted to affect the result of the Loss and Gain account? Give reasons for your answer.

Question 96

Expenditures are made by a corporation for items of each of the following classes: (a) taking down a machine in one part of a factory, moving it, and putting it up in another part, (b) expenses of incorporating the company, including state charges and lawyer's services, (c) brokerage on purchase of a piece of property, (d) commission on an issue of debenture bonds, (e) costs attending a mortgage, (f) furniture and fittings of a city office and sales-room, (g) costs of patents, including solicitor's charges and government fees. Which items should be charged to capital and which to revenue? State reasons for your answer in each case.

Question 97

Assuming that you are limited as to time and fee in an

audit embracing numerous personal accounts contained in one general ledger, state precisely the steps you would adopt in each case to verify cash, sales, purchases, customers, creditors.

Question 98

What proportion of \$15,000—commission paid for negotiating a sale of bonds, to run 10 years—should be treated as an asset at the end of the first year? Give reasons.

Question 99

What would you consider a satisfactory voucher for wages paid in a manufacturing business?

Question 100

In an audit of a business in which discounts are freely given and received and the accounts are charged and credited in gross, what general check should be adopted in verification of (a) discounts allowed, (b) discounts received?

Question 101

Given the following reconciliation of cash at the close of an audit, state categorically how it may be verified:

June 30, cash on hand as per cash book.....	\$8,549.17	
Balance as per bank pass book at the close of business.....	\$16,549.72	
Add check of J. B. Jones, not de- posited.....	1,450.00	
	<hr/>	
	\$17,999.72	
Deduct checks drawn, not presented..	10,154.29	
	<hr/>	
	\$ 7,845.43	
Cash in drawer.....	703.74	\$8,549.17
	<hr/>	

Question 102

State generally what constitutes capital expenditures in each of the following cases: (a) a manufacturing company, (b) a gas company, (c) a charitable institution.

Question 103

To what documents should the auditor have access in each of the following cases: (a) partnership accounts, (b) trustees' accounts? Why?

Question 104

In commencing an audit, say three months after the close of a fiscal year, how would you verify cash on hand and bills receivable as they should stand at the end of such fiscal year?

Question 105

State the special uses to which an auditor may put controlling ledger accounts, such as Customers' Ledger account, and Purchase Ledger account.

Question 106

State what means should be adopted to verify (a) cash sales, (b) discounts allowed, (c) discounts received, (d) sold goods returned, (e) allowances on sales.

Question 107

A corporation sells its first mortgage bonds at \$10,000 premium and its second mortgage bonds at \$10,000 discount. Give your views as to the proper treatment of these items of premium and discount.

Question 108

Without definite instructions, what, in your judgment, would constitute a thorough and proper audit of a set of books?

Question 109

What evidence should the auditor require as to the authority given to officials of a municipal corporation to expend money? State what methods should be used in auditing the actual payments.

Question 110

How should the accountant proceed if required to audit the accounts of a firm which kept only a cash book and journal, but had preserved all the invoices and vouchers pertaining to the business?

Question 111

State briefly your views as to the question of depreciation of assets, and the rule which you adopt in regard to it. What rate would you apply to plant and machinery, and furniture and fixtures?

Question 112

What are the principal points to which attention should be given in ascertaining the amount of the net earnings of a company desiring to use your certificate?

Question 113

What is meant by the term sinking fund? Show how a sinking fund is opened or established, and explain its operation from year to year.

Question 114

Explain the difference between an account of receipts and payments and an account of income and expenditure.

Question 115

In auditing the books of a building and loan association, what method should be used in verifying (a) depositors' pass books, (b) mortgages held by the association, (c) the income?

Question 116

How should the auditor deal with the ledger accounts of partners (a) in the division of profits, (b) in the assessment of losses, (c) in case a partner's drawings exceed the amount specified in the partnership agreement, (d) in case a partner's drawings are less than the amount to which he is entitled?

Question 117

What routine would you recommend in the checking of invoices of goods or materials purchased?

Question 118

What rules would you recommend for localizing the errors in a trial balance?

Question 119

A company manufacturing a proprietary article offers certain premiums to its customers on the return of its wrappers, the premiums offered being indicated in a published schedule. At the time of making out the annual balance sheet, only a few of the premiums have been distributed. How should this matter be treated in the balance sheet?

Question 120

In the case of a company which has issued preferred stock carrying a cumulative dividend, but has not earned enough to pay such dividend in full for several years, how would you deal with the arrears of dividends due, if at all, on the company's balance sheet? Give reasons.

Question 121

Explain the difference between capital expenditure and revenue expenditure. What rule controls in determining whether certain payments belong to capital or to revenue? When in doubt, to which should the payment be charged?

Question 122

In an audit of the books of a corporation using the voucher system, what means should be adopted to prevent the reproduction of vouchers already passed, in cases where the auditor is not permitted to deface the vouchers by stamps or writing?

Question 123

Describe in detail the method that should be used to verify the securities representing the investments of a company under audit in the case of (a) real estate, (b) mortgages on real estate, (c) certificates of stock, (d) railway bonds.

Question 124

An auditor, on completion of his work, certifies that the accounts are correct in accordance with the books. Is this form of certificate subject to criticism, and, if so, why?

Question 125

What is meant by a Suspense account? Give three examples of items carried to Suspense account, and state how they may be removed from that account.

Question 126

After auditing the books of a manufacturer annually for a period of ten years, you are asked to render a certificate as to the net earnings of the business for those ten years, for the purpose of a sale based on the earning capacity of the property. What items of expense heretofore charged annually through the Profit and Loss account may be properly eliminated in the preparation of your certificate, and why?

Question 127

Explain two methods by which depreciation on buildings, machinery, and plant may be stated in the books of account. State which method you prefer and give reasons.

Question 128

When auditing the books and accounts of a concern operating a large machine shop, you find that the machinery and tools have been regularly depreciated each year, that their value as shown by the books is considerably less than the value shown by an independent appraisal, and that the firm has set up the higher values as shown by the appraisal on the books. To what account would you recommend the corresponding credit to go and for what reasons?

Question 129

Draft a bank reconciliation account, dealing with checks outstanding, not cleared.

Question 130

Describe the various steps to be taken in auditing the accounts of an executor for the first year after the death of the testator.

Question 131

It is found in an audit that certain merchandise shipped to an agent for sale has been charged to his personal account and credited to sales. Make correcting entries.

Question 132

What is the difference between a reserve and a reserve fund? Give examples of each.

Question 133

What points require special attention in examining bills receivable at the end of a fiscal period?

Question 134

State your views as to the functions of the journal. In what does it differ from the cash book?

Question 135

State your method of verifying the Bills Receivable account. Does the balance of acceptances unmatured affect the Bad and Doubtful Debts account, and if so, how? What evidence would you require of the dishonor of an acceptance?

Question 136

In auditing the accounts of Bruce & Co., you find that a dishonored acceptance of Andrews for \$2,500 is included

in bills receivable balance. If this is not correct state how it should have been treated.

Question 137

A client who has a beneficial interest in the *corpus* of an estate employs an accountant to conduct a complete audit. State the points on which the accountant should particularly report.

Question 138

To what extent would you, as auditor, concern yourself in the matter of depreciation allowances?

Question 139

How should the discount and premium arising from the sale of a company's own securities held in its treasury be treated on the books? Give examples.

Question 140

Mention several transactions which, in an audit of the accounts of a village, would require inspection of the official minutes for verification.

Question 141

In what cases, if any, should checks be regarded as insufficient vouchers for the payment of bills?

Question 142

If, in the course of an audit, it is found that the balance shown by the bank pass book agrees with the balance shown in the cash book after all outstanding checks have been taken into consideration, should this be deemed conclusive evidence of the correctness of the bank balance? If not, what further evidence should be required?

Question 143

Give examples of such assets and liabilities, not usually found on books of account, as should be considered by the auditor when preparing an income and profit and loss account at the close of a fiscal period.

Question 144

What method should be adopted to verify the correctness of amounts paid by a corporation for (a) directors' fees, (b) agents' and salesmen's commissions?

Question 145

What special considerations would influence you in fixing the rate of depreciation chargeable on (a) buildings, (b) machinery, (c) tools and fixtures, (d) patterns?

Question 146

In making an audit of a firm's books for the purpose of certifying the annual profits for a period of years and with a view to its conversion into a corporation, what items of earnings and expenses should be omitted which would ordinarily be included in its regular annual profit and loss account?

Question 147

In making a first audit of the accounts rendered by an executor, what documents would be required to enable the auditor to properly perform his duty?

Question 148

In a manufacturing and profit and loss account prepared from a trial balance submitted by your client and

verified by you, what expense accounts would you charge in the manufacturing account, and what in the profit and loss account? (Refer to any manufacturing business with which you are familiar.)

Question 149

How would you proceed to audit the transactions of a business for which no cash book, journal, or ledger had been kept?

Question 150

What safeguards in accounting would you suggest to a client to prevent loss of stock by theft?

Question 151

What can an auditor do to verify (a) inventories and (b) pay-rolls?

Question 152

Should provision be made out of revenue to provide for discount on accounts payable outstanding after the date of closing? Give reasons for your answer.

Question 153

A firm resolves itself into a corporation in which new capital is to be interested. How would the auditor ascertain the value of the good-will?

Question 154

A house sends out many goods on approval and treats the transactions as sales. How should such items be treated by the auditor when setting up statements for a period?

Question 155

A firm is worth \$100,000 above all liabilities, and estimates its good-will at \$50,000. A contract is made to convey all its assets, inclusive of good-will and subject to liabilities, for \$150,000 of capital stock. You are asked to prepare a statement for taxation, and as good-will is not taxable for city and county purposes, it is sought to increase the amount of that item on the books and to reduce correspondingly the value of other assets, on the ground that the business is profitable and the good-will really worth more than the account shows. What should the auditor do under such circumstances?

Question 156

The year's cash receipts of a corporation were \$250,-625.16, disbursements \$110,328.28. Are the directors warranted in declaring a dividend on the presentation of these facts alone? Give reason for your answer.

Question 157

It is agreed by the directors of a manufacturing company that certain depreciation should be allowed, but that it is desirable to let the plant accounts stand on the books at cost value. How would you as auditor manage to meet the situation?

Question 158

In an audit of the accounts of a corporation should the auditor accept as conclusive the certificate of the registrar of the stock as to the total amount of capital stock outstanding? If not, why not?

Question 159

A construction company has a number of contracts partly completed at the close of its fiscal year. Would you

carry any portion of the anticipated profit on these contracts into Revenue account? If so, why?

Question 160

A company receives a premium on its own capital stock. What account should receive credit for the premium? Is this premium available for the payment of dividends? Give reasons to sustain your answer.

Question 161

What course should be pursued in an audit where it is impossible, owing to the great volume of business, to check the postings to subsidiary ledgers?

Question 162

State generally, what goes to make up in a mercantile house (a) the Trading account, (b) the Profit and Loss account.

Question 163

A company gives more or less attention to its plant. Is it proper to enter the whole outlay against the capital? If not, could the outlays be spread over a period of years? Would a revaluation of the plant be a proper solution of the matter? Explain.

Question 164

A firm is indebted to one of its creditors in the sum of \$45,000. The creditor agrees to accept notes with good indorsements for \$50,000 in full settlement of the account, with the understanding that if any payment is not made at maturity, the whole debt, less such sum as may have been

paid, shall be declared to be due by the creditor. After concluding this arrangement the firm is succeeded by a corporation. The agreement covering the turnover provides that all debts of the firm shall be paid by the corporation. Only the indorsed notes for \$50,000 are brought into the books of the company, and nothing is said regarding the agreement hereinbefore referred to respecting the original debt. You are asked to certify to the accounts thus set up. What course would you pursue?

Question 165

An individual buys a fleet of ships. He then forms a corporation to take them over at double the sum paid by him, payable one-half in debenture bonds of the company, and one-half in its capital stock. A sinking fund is to be provided for the gradual retirement of the debenture bonds. A public accountant is called in at the end of five years to make up the accounts. He insists on creating a depreciation fund based on the full consideration paid by the corporation. The directors argue that the depreciation fund should be based on the amount of debenture bonds issued, on the theory that the capital stock issued to the vendor was in the nature of a bonus and did not represent any real value. State your views regarding the two propositions.

Question 166

Is it the duty of an auditor to examine the transfer books of a corporation? Explain.

Question 167

How may the auditor protect himself in a case where there are many branches that he is not permitted to visit, through which some of the business is carried on?

Question 168

A firm carries on its books a number of parcels of real estate. By what means could the auditor satisfy himself as to the ownership and value of the several parcels?

Question 169

In making an examination of the assets of a company, the officer charged with the custody of securities owned is unable to produce a certain certificate of stock which should be on hand when called for. It is produced later. Would it be the duty of the auditor in charge to inquire into the reason for its absence in the first instance? Give reasons for your answer.

Question 170

It is customary with some institutions to carry secret reserves. State your views respecting that custom.

Question 171

What system would you advise for checking the accounts of collectors for a charitable organization?

Question 172

An insurance company invests in the stocks and bonds of other corporations, and the books show a great many purchases and sales of securities. How should these transactions be verified?

Question 173

A company authorizes its officers to borrow for its account \$100,000 and give as security \$200,000 of the first

mortgage bonds of the company. How should this transaction be treated in the balance sheet?

Question 174

A bank enters against overdrafts the interest accrued thereon. If an account is of questionable value, what should be its treatment in the Revenue account of the interest so charged to it?

Question 175

What is an audit? Mention the kinds of audits commonly required and explain the object of each.

Question 176

How may pay-rolls be manipulated to conceal fraud? What steps should be taken in a first audit to detect such manipulation and to prevent its recurrence?

Question 177

At what stage in an audit should cash and negotiable securities be verified? Why?

Question 178

Give the form of an unqualified certificate of audit?

Question 179

Is it ever advisable to give a qualified certificate of audit? If so, under what circumstances? Write such a certificate.

Question 180

In making a complete audit, how should the accountant

satisfy himself that all disbursements have been actually made as charged in the accounts?

Question 181

Outline your method of procedure in auditing the accounts of a wholesale dry-goods store.

Question 182

The secretary of a manufacturing corporation has undertaken to close its books. The balance to the credit of the Profit and Loss account is just sufficient to enable the directors to declare a small dividend, which they propose to do. At this juncture, the services of an accountant are engaged. He finds that no provision for depreciation has been made, and that all expenditures for repairs and renewals, amounting to more than the proposed dividend, have been charged direct to Plant account. Show the nature of any corrective entries that should be made. What would be the effect of such entries, there being no surplus?

Question 183

Mention five of the technical errors that frequently occur in the keeping of accounts, and give the method of detecting them?

Question 184

In auditing the accounts of a corporation engaged in the business of erecting gas retorts in various sections of the country, you have reason to suspect that losses are steadily sustained on account of the theft of valuable tools by workmen. What recommendation would you make for the purpose of preventing such losses?

Question 185

A company was organized in February, 1900, for the purposes of constructing and operating two iron furnaces as one plant, and of owning and mining ore properties.

An issue of mortgage bonds was arranged for the purpose of providing funds to finance the constructing of the plant and the purchase and development of ore properties. The mortgage provided that the property should be maintained by the company in first-class condition.

The first furnace was put in blast in May, 1901, and the second in June, 1902. The ore property was developed and mining commenced in April, 1901, at which date the total cost of the property and development amounted to \$50,000. The superintendent of the plant reports monthly the quantities of ores and materials received, and also the quantities used at the furnaces. Stores accounts are kept for each kind of ore and material. Piles of ores and materials are cleaned up periodically. The plant superintendent also reports the quantities of pig iron produced monthly and the quantities of pig iron shipped monthly.

January 2, 1905, you are appointed in the interest of the bondholders and shareholders to audit the accounts of the company for five years ending February 28, 1905.

Apart from the accuracy of the clerical work and book-keeping, what are the principal points to be ascertained with regard to (a) expenditures, (b) issue of bonds, (c) maintenance of the properties? State how you would satisfy yourself of the accuracy of the following assets and liabilities at the close of the period of your examination: stocks of ores and materials, stock of pig iron, mortgage bonds outstanding, capital stock outstanding.

Question 186

In drawing up a balance sheet is it desirable to show

the assets and liabilities by groups, and, if so, into what groups would you classify? Give reasons for your classification.

Question 187

You are appointed to audit the accounts of the trustees of the late C. D. who were designated in his will. His estate consisted of cash, real estate, U. S. government bonds, shares in various enterprises, mortgages on real estate, and a partnership interest in a manufacturing firm. What documents and records would you need to see in order to satisfy yourself that the accounts were properly stated and the interests of the beneficiaries properly administered?

Question 188

Should inventories of a manufacturing concern be taken at cost value, at market value, or at some other value? Give reasons.

Question 189

When sales are made on time with the proviso that certain discounts are to be allowed if payment is made on or before specified dates, would you, when auditing the accounts, make provision for such discounts on outstanding accounts? Give reasons and an argument for or against the practice.

Question 190

A contractor engages to erect a building for \$250,000, and his estimates indicate a profit to him of \$25,000 in the transaction. He receives during the fiscal year payments aggregating \$85,000 on architect's certificates, showing that

\$100,000 worth of work has been done. Ought any of the contemplated profits to be carried into the accounts for that year, and, if so, how much?

Question 191

In auditing the accounts of a corporation, what special precautions would suggest an inspection of the minute books, the stock ledger, the bond register, and a review of certain initial entries relating to the company's formation at a date prior to that covered by the immediate audit?

Question 192

To what extent may the "organization expenses" of a corporation be regarded as a permanent asset and how should this account accordingly be dealt with?

Question 193

An employee holding the dual position of cashier and bookkeeper is suspected of dishonesty. Some one has established the agreement between his cash book and bank pass book. What should an auditor do if subsequently called in to ascertain the facts?

Question 194

In going over the affairs of a banking institution with branches, state how the following items should be verified: (1) cash at home office and branches, (2) loans secured and unsecured, (3) securities owned. What, if anything, should be done concerning individual depositor's accounts?

Question 195

A company is organized with a capital of \$50,000. The stock is issued for a "going concern" whose accounts

showed it to have a net worth of \$45,000. Nothing was said about good-will when the contracts were made between the owners and the new company. How would you treat the \$5,000 difference?

Question 196

Is an auditor justified in certifying to a balance sheet in case the books of account are not in balance? Give reasons.

Question 197

In the books of an insurance company are found numerous entries relating to the purchase and sale of stocks and bonds. What proof should the auditor require as to the correctness of these accounts?

Question 198

In auditing the accounts of a fiduciary, chargeable with income arising from rents, interest, securities, and cash in bank, how should the auditor satisfy himself that a full return was shown by the books submitted?

Question 199

How would you proceed to ascertain the net sales, purchases, expenses, and net profits of a business for a given period when the ledgers, sales books, purchase books, and supporting documents have been destroyed by fire, and the only records available are the cash book, bank pass book, and book of monthly balances, the latter containing all the ledger balances and annual balance sheets? (It is to be understood that no unusual transactions had taken place.)

Question 200

What do you consider the best method to employ in the review and audit of cash receipts and payments?

Question 201

What method would you recommend in the conduct of a cash account to facilitate a speedy and thorough audit thereof?

Question 202

Is there any reason why the good-will carried as an asset on the books of a prosperous and growing manufacturing concern should be depreciated, amortized, or otherwise written off, and, if so, what would be the effect of such depreciation, amortization, or writing off?

Question 203

When a corporation acquires a number of separate plants, paying a lump sum for each, is it necessary for it to show on the books the proportion of the purchase price paid for the good-will, and, if so, what would be the proper method of ascertaining and expressing such proportion in the accounts?

Question 204

Give the steps that should be taken to insure the statement of the full liability on the following items appearing in the balance sheet: preferred cumulative stock, first mortgage bonds, collateral trust bonds, income bonds, car trust notes.

Question 205

A railway company leases the property of another railway company for a period of 50 years and, as part of the consideration for the lease, agrees to expend immediately \$250,000 on the leased property, in order that it shall have a greater operating efficiency. At the termination of the lease the property is to be returned to the lessor in the same

condition as at the time of making the lease, subject to ordinary wear and tear. What entries, if any, would you make on the books of the lessor in respect to the expenditure of the \$250,000, and why? Explain fully.

Question 206

A gas company with a capital of \$5,000,000 and a surplus of \$1,000,000 had made no provision for the depreciation of its property till the directors reviewed the valuation of the property accounts on the books and decided to write off \$2,000,000, thus creating an apparent deficiency of \$1,000,000. The net earnings during the year following the writing down of the assets amounted to \$1,250,000 before any depreciation was charged, and the directors proposed to pay out as dividend \$1,000,000. What opinion would you express as to this proposition, if called on by the board before final action was taken?

Question 207

The company referred to in question 206, five years subsequent to the time of writing down its assets reconsidered the action taken at that time and instructed its accounting officer to write back the valuation of the assets and thus apparently add \$2,000,000 to its surplus. If you were auditing the accounts of a corporation which owned practically all of the capital stock of the gas company, how would you regard both the writing down and the writing up of the assets of the subsidiary company on the accounts of the company you were auditing?

Question 208

A company is organized for the purpose of acquiring the capital stock of six different corporations, all of which

manufacture similar goods. The terms of the contracts with the various vendors of the stock contain provisions that the accounts receivable as they appear on the books at the date of the contracts will be guaranteed by the vendor.

On a subsequent examination of the accounts of the several companies, you ascertain that many of the accounts receivable had been paid, not by the original debtors, but by the guarantors. State what criticism or recommendations you would make under the circumstances and give your reasons therefor.

Question 209

If, under the conditions mentioned in question 208, you were called on to certify to the amount of profits of the six companies for the year prior to the date at which the accounts receivable were guaranteed, would the fact that certain of the accounts had been paid by the guarantors affect the profits earned? Give fully your reasons.

Question 210

In examining the accounts of a coal company, you find that it is the owner of the entire capital stock of another coal company; what would you require in respect to the accounts of the subsidiary company before certifying the balance sheet and income account of the parent company? State fully the reasons to substantiate your position in the matter.

Question 211

On closing the books of a large business for the year, it is found that the profits are much less than were expected and much less than usual. What steps would you take to find the reason for this?

Question 212

What is your understanding of a cash audit?

Question 213

What measures do you adopt to protect yourself against imposition by persons who have access to the books while you are auditing them?

Question 214

A company owns all of the capital stock of another company. This company has outstanding an issue of bonds not guaranteed by the company holding the stock. The assets of this subsidiary company are deemed insufficient to cover the bonds, so that its capital stock has no value. The owning company desires the auditor to prepare its balance sheet, setting up the assets of this subsidiary company along with other assets directly owned, and the bonds as liabilities. Is it proper for him to do so under the circumstances? Give reasons for your answer.

Question 215

What do you consider a complete checking of (a) the general journal, (b) the purchase journal?

Question 216

What is your method of checking dividends paid?

Question 217

A New York company sells its capital stock at a premium and the directors pass a resolution to declare a dividend out of the surplus thus paid in. Would you call attention to this action if asked to make up the accounts, and, if so, why?

Question 218

In examining the books of a corporation you find that an officer is a partner in a business from which the corporation makes purchases. Upon scrutiny you find that all the transactions are at proper figures. Would you, under such conditions, call attention to the fact when making your report to the directors?

Question 219

A concern owns a parcel of real estate which cost it \$500,000. There is a purchase money mortgage on it of \$350,000. You are asked to enter the same in the balance sheet at \$150,000 net. Would you comply with this request? Give reasons for your answer.

Question 220

Under a law permitting payment of dividends solely out of surplus earned, a corporation pays a dividend out of general surplus, after carrying its losses for the period against the account. Would you make mention of the fact in the recital accompanying your statements, or would you let it go without specific mention? Give reasons.

Question 221

A teller is found to be short in cash. He has been in the position for a period of three years and has a daily record of cash on hand. His bond of suretyship antedates the discovery of the shortage by a period of six months, and it contains a clause that the surety shall not be liable for a shortage existing at the date the bond became effective. You are employed by the surety to ascertain if the shortage falls within the period of the bond. What steps would you take? Do you think that you would be successful?

Question 222

What is the objection to loose-leaf depositors' ledgers?

Question 223

In auditing the paid bank checks of a corporation using a specially printed form of check, numbered numerically, would you consider it necessary to account for all check forms received from the printer? Give your reasons for or against such accounting.

Question 224

In making an audit would you consider it necessary to check in detail the postings of subsidiary ledgers? Explain fully.

Question 225

In examining the books of a railroad company for the purpose of determining the profits for a given period only, what class of expenditures should be carefully examined? State how you would verify such expenditures.

Question 226

In auditing the books of a concern that does business in a small city outside of New York and that uses a combined check and voucher for making payments, it is found that the concern buys drafts on New York and remits these drafts to its creditors. If the voucher check reads, "For the purchase of New York drafts to the order of the creditor to whom the money is due," would you consider this a sufficient voucher for the payment of invoices of the specified purchases? State fully your reasons for or against accepting these vouchers as sufficient evidence of such payments.

Question 227

Explain fully how you would proceed in inspecting and verifying the bonds and stocks (not valuation) owned by a company whose books you are auditing, stating the principal points you would investigate in connection with the coupons and the names appearing on the stock certificates.

Question 228

In auditing an account the auditor finds that Robert Brown had bought a bill of goods amounting to \$500, payable on August 10th, less 2%. He had, however, made payments thereon as follows: June 2nd, \$100; June 15th, \$100; July 3rd, \$100. On what date would he be required to make payment of the remaining \$200 to entitle him to the 2% discount under the original terms of sale?

Question 229

How should journal entries be verified? What particular class or kind of journal entries should be subjected to careful scrutiny on the part of the auditor? Why? Explain in a general way how the journal may be used as a medium for the falsification of the following accounts: (a) cash, (b) accounts receivable, (c) asset accounts or expense accounts. Explain the purpose and effect of such false entries.

Question 230

Write two forms of certificate such as might be given to a client upon your completing an audit for the fiscal year of the company.

Question 231

The accounts of a steel and iron manufacturing company show large additions to plant and machinery. It is

found that these charges include considerable amounts from pay-rolls. In the absence of specific explanations as to the pay-roll element, what method should be employed by the auditor to determine the accuracy and the propriety of these charges?

Question 232

A public service corporation that regularly sets aside from its profits a sufficient amount to provide for depreciation, removes part of its old plant and replaces it with a larger and more costly one. The old plant is sold for scrap. How should the cost of the new plant and the proceeds from the sale of the old plant be treated in the accounts of the company? Give reasons.

Question 233

How should an auditor determine that allowances for errors in bills and credits for merchandise returned are proper credits to customers' accounts, and are not made to cover amounts misappropriated by the bookkeeper and cashier?

Question 234

In handling large factory pay-rolls, which do you consider the better practice for the prevention of fraud, the taking of receipts from each employee for the amounts paid, or the establishment of a good system of accounting for handling pay-rolls? Give reasons and explain why you think one method is better than the other.

Question 235

If the cash in bank as shown by the cash book or ledger is reconciled with the amount shown by the pass book or certificate obtained from the bank, is it necessary to check

the pass book with the deposits as shown by the cash book? Give reasons for your answer, stating the nature of a possible irregularity that might be disclosed by such detail checking.

Question 236

The bookkeeper and cashier of a concern whose customers make all their remittances by check, fails to record certain bills on the sales books and misappropriates the amounts. The remittance checks for these bills were regularly deposited in the bank and the checks drawn for petty cash include additional amounts for such checks. State and explain two parts of an audit that might lead to the detection of the misappropriation.

Question 237

What measures should be taken to ascertain whether or not any notes receivable have been discounted and cleared from the books, notwithstanding the fact that they are not due and at maturity will be subject to demand on the last indorser in case payment is defaulted by the maker?

Question 238

What examinations should an auditor make with respect to fire insurance policies and their cost? What should he do if he finds that all premiums have been charged to expenses when, and as vouched or otherwise, entered to the credit of the insurance company or broker? What notice, if any, should an auditor take of the fact that the client has at risk of loss by fire property on which no insurance is carried?

Question 239

Describe two methods of procedure by either of which

might be detected the fact that a cashier has been appropriating to his own use the funds of his employer, but has been keeping his cash book in agreement with the funds on deposit and in hand through the process frequently termed "kiting remittances of customers," i. e., depositing on one day all checks and drafts received from customers on that day together with a sufficient amount of cash to equal the cash book entries made on the same day for amounts received from certain customers on previous days, thereby postponing the entry of receipts from customers to an amount equal to the cash misappropriated.

Question 240

What do the orders issued by the Interstate Commerce Commission require of railway companies with respect to making provision in the accounts for the replacement of equipment?

Question 241

What are the duties of an auditor as to examination of inventories of finished product, product in process, and materials and supplies, which have been taken and appraised by representatives of the client, in case he is not permitted to make tests for the purpose of satisfying himself as to the integrity of the quantities shown? How should he cover such a situation in his report?

Question 242

What are the duties of an auditor when he finds no charges made against maintenances or other accounts for depreciation of plant? Should he be concerned with the condition in this respect which obtains throughout the period prior to the one to be covered by his audit? How

should he report to his client, having regard for the possibility of his report being used for the purpose of obtaining loans, obtaining additional capital in the business, or selling some part of the existing capital interests?

Question 243

What means should an auditor use to verify accounts representing bonds and stocks owned and bills and notes receivable, and to ascertain whether or not the book values are within the real worth?

Question 244

State two methods by which, under different conditions, an auditor may establish the actual amount of capital stock outstanding, and state the conditions that will require the use of one method, and the conditions that will require the use of the other method.

Question 245

Describe the procedure that should be followed in auditing the books and accounts of a stock exchange broker.

Question 246

Is an ordinary bank check drawn by the concern whose books you are auditing, to the order of the Receiver of Taxes and properly indorsed by him, a sufficient voucher for the payment of the taxes of this concern? Give reasons.

Question 247

Two concerns in similar lines contemplate consolidating their business; you are requested to examine the books of account and report on matters germane to the contemplated

merger. What data would you probably present in your report?

Question 248

The assets of a concern as shown by the books include real estate and accrued interest. In your audit how would you verify the correctness of these items?

Question 249

In making a bank examination would you commence at the start of the business day or at the conclusion of the business day? Give reasons.

Question 250

How should an auditor commence a new audit of the books of a concern whose business is foreign to his experience, in order to gain familiarity with the work in hand in the shortest possible time?

Question 251

In classifying the items of a statement of profit and loss under what caption should the following items appear, to be logically allocated: freight on sales, insurance, salaries of watchmen? Give reasons for your allocation.

Question 252

Describe the necessary precautions to be taken to safeguard a corporation when an executor presents a certificate of stock for transfer. Outline entries on the transfer books.

Question 253

Should any fluctuation in the valuation of permanent

assets be permitted to affect the result of the Profit and Loss account? Give reasons.

Question 254

Draft instructions for client to follow in monthly reconciliation of cash, as basis for your audit.

Question 255

Is it necessary to verify the stock ledger of a corporation? Why?

Question 256

State the method and the objects of an analysis of Bills Payable account.

Question 257

State, in the order of their importance, five rules for the guidance of a junior in starting on his first audit.

Question 258

Outline working papers and office records necessary to handle detailed semiannual audit of a wholesale mercantile house.

Question 259

State precautions that you would take in verification requiring several days' work, of the securities of an insurance company, including both stocks and bonds in negotiable and non-negotiable form.

Question 260

A corporation has branches in 20 cities, each selling at retail its standard product and paying local bills from

receipts. State matters on which the traveling auditor of the corporation should report, and suggest suitable forms therefor.

Question 261

In case it is expedient to have a local accountant audit the accounts of a branch office of a wholesale trading firm for which you conduct the general audit, state matters on which you would require a report. The branch sells goods, collects from customers, pays all local expenses, and remits cash in round amounts to home office.

Question 262

A balance sheet audit discloses satisfactory conditions with the exception of insufficient allowance for losses in collection of accounts receivable. In case the client should not consent to adjustment, draft form of certificate that would be proper under the circumstances.

Question 263

State the arrangement of a report in which it is desired to present balance sheet with supporting schedules of accounts receivable, accounts payable, bills receivable, and bills payable, and profit and loss account, together with comment on extraordinary features of the business.

Question 264

If called on to verify the Merchandise account of a manufacturing concern, what steps would you take to make the necessary investigation?

Question 265

As an auditor, state and explain the use of percentage in the presentation of operating and income results.

Question 266

You are employed by a lawyer to examine and report on the affairs of several corporations similarly engaged, with a view to the purchase of the same by his clients. In so doing you find that in paying a dividend the directors of one of the corporations have used the premium received from the sale of its treasury stock. Would you deem it necessary to call your client's attention to this action, and, if so, why?

Question 267

Give sample of a report such as you would make after having examined several copartnerships engaged in the same line of business, that desire to combine in one corporation. Give your views, and reasons therefor, as to the advisability or as to the inadvisability of the merger.

Question 268

What condition of office organization, above all others, leads to fraud and defalcation by bookkeepers and cashiers? Support your opinion.

Question 269

What means would you employ to verify the usual cash receipts of the average social club?

Question 270

Give at length your views on the "ethics" of accountancy.

Question 271

Assuming that you are a certified public accountant and employed as auditor by a corporation, state what you would

consider it your duty to do in order to safeguard your clients regarding the fire insurance that they carry on their stock of merchandise.

Question 272

A foreign agent of a life insurance company sends monthly the following data: a report showing his receipts and disbursements, with dates; vouchers supporting the disbursements; list of overdue premiums; a statement of his daily cash balances in bank, supported by a certificate from his bank as to his closing balances. How would you audit his report?

Question 273

A company has acquired, at \$90 per share, 100 shares of its own capital stock, of the par value of \$100 per share. Its balance sheet shows treasury stock \$9,000. Is this correct? If so, why? If not, state how you would adjust the books.

Question 274

In auditing the books of a corporation capitalized at \$250,000 you find that three years previously they acquired the business of a copartnership included in which was an asset called good-will valued at that time at \$25,000, since which the same has not been written down. The average profits of the corporation for three years have been 9% on the capitalization. How would you treat the item good-will? Give reasons.

Question 275

What steps would you take to audit the notes receivable purchased and the notes receivable on commission held by

a commercial paper house, to satisfy yourself that there had been no fraud by substitution?

Question 276

The cashier of a concern is at the same time its book-keeper. During his absence on vacation slight irregularities are discovered and you are engaged to audit his books. He returns on the day you begin your audit and admits a defalcation of \$5,000. Knowing that his receipts were supposed to be deposited daily in the bank, state the steps that you would take to ascertain the truth of his admission.

Question 277

The result of your count of the "cash on hand" at a large agency on January 1, 1912, discloses:

Bills		\$1,979.09
Coin		484.19
Cash items supported by properly signed vouchers:		
January 14, 1908—Sub-agent Jones.....	\$200.00	
July 20, 1909—Sub-agent Thomas....	140.00	
August 20, 1909—Sub-agent Vincent....	75.00	
September 30, 1910—Sub-agent Nelson.....	230.00	645.00
Cash balance as per general ledger.....		<u>\$3,108.19</u>

Does this count complete your duty as an auditor? If you consider that further steps are necessary state what you would do.

Question 278

What instructions would you give to a junior accountant to whom you had intrusted the audit of the account Investment in Bonds and Mortgages appearing on the books of a trust company?

Question 279

You find that a concern whose books you are auditing has capitalized the amount of royalties that it would have had to pay on the sales of a three years' period if it had not owned the patents. On the increase of surplus thus obtained the directors have declared a stock dividend. Would you consider yourself called on to criticize the action of the directors? If so, state what would be the character of your criticism?

Question 280

The bondholders of a company are contemplating an action against the directors and retain you to obtain the accounting proof of their contentions; subsequently the directors ask you to act in the same capacity for them; they profess to have no objections to your representing both sides. What would you do?

Question 281

Explain the steps you would take regarding an asset described as "Accounts Receivable—Suspense," in the audit of a business, the owners of which required a "clean and unqualified certificate."

Question 282

In an audit of a business the Plant account of which has been increased from \$100,000 to \$150,000, what steps would you take regarding this asset and what would be your controlling consideration as to the propriety of the \$50,000 of additions during the period under audit?

Question 283

What vouchers would you refuse to accept in the audit

of a corporation, even though such vouchers were duly approved by such of the officers of the corporation as is required by custom or in the by-laws? Give examples and explain.

Question 284

A life insurance company pays a lump sum of \$7,500 to purchase an agent's interest in renewal premiums. What is the correct treatment of such expenditure? Explain fully.

Question 285

A lead company issues certificates evidencing the sale of and agreement to deliver on demand to the purchaser a certain number of pigs of lead of variable and unknown weight, at a price to be based on the average daily published quotation of pig lead during the month in which the certificates are issued. In a certified balance sheet how would you treat these certificates? Explain.

Question 286

In an audit covering the year ended December 31, you discover that invoices aggregating \$2,000 for bricks and other building materials to be used in the construction of an addition to the plant, were received after the books were closed, although the materials were actually received on December 15. As the materials were not taken into the inventory and the invoices were not on the books, would you require any adjustment? Give reasons.

Question 287

As a certified public accountant auditing the books of a manufacturing business that operated a supposedly highly developed cost system, what steps would you take regarding

inventory values that were found to agree with the cost records?

Question 288

You are instructed to make an audit, prepare and certify a balance sheet to be publicly used in the sale of additional capital stock. The date of your engagement is September 16, 1912. No inventory has been taken since October 31, 1911. What course would you pursue?

Question 289

The Wiltshire Life Insurance Company's office building has suffered a total loss by fire. The loss stands on the books at \$100,000, but the site alone is known to be worth double that amount. At the time of your audit the company has lost in rentals from the burned building \$6,000 and has paid \$15,000 taxes and expenses incidental to the removal of débris. How would you have these items treated? Give reasons.

Question 290

Write three concise certificates to a balance sheet, with qualifications respectively as to (a) inventory of merchandise not taken under your supervision, (b) accounts receivable not verified by confirmation, (c) investment securities not examined.

Question 291

The "proof" of the first teller of a bank shows the following captions:

Debits: (1) Cash, (2) Second Teller, (3) Third Teller, (4) Second Teller Special, (5) Clearing House.

Credits: (1) National Bank Notes, (2) Checks on Bank, (3) Second Teller's Items, (4) Third Teller's Items, (5) Clearing House.

State what instructions you would give to an assistant whom you were about to intrust with the checking of that proof, immediately following the count of the cash and securities on hand.

Question 292

You were retained by an inventor to ascertain the accuracy of the figures submitted by a company operating under his license. Royalties are paid on sales; licensee issues a catalogue in which the sundry finished products are referred to by numbers; if the invention is used on any particular product the letter "I" precedes the code number. What steps would you take to perform your duty?

Question 293

An electric lamp manufacturing company has charged to cost of lamps as "depreciation," one-fourth of the value of the filament-filtering machinery acquired a little more than one year ago. The life of the machinery is estimated to be 10 years, but, owing to discovery by a competitor of a new process of metal pulling which, while still imperfect, promises to revolutionize the lamp industry, the machinery in question will probably be obsolete within a period of three years. State at length what you would say concerning the propriety of making such a charge to cost.

Question 294

The consolidation of companies A, B, and C is under consideration; it is desired to establish a comparative

statement of income for the three companies as of August 31, 1912. Company A closes its books on December 31; Company B on June 30; the fiscal period of Company C expires on August 31. No inventories have been taken as of the latter date by A and B, and they will not be taken. Express the procedure that you would follow in order to establish a satisfactory statement.

Question 295

A, engaged in the jobbing business, enters into a copartnership agreement with B, the terms of which are in substance as follows: B is to share in the gains and losses of the business at the ratio of $37\frac{1}{2}\%$, which is in proportion to his investment of \$6,000. A is to act as general manager, cashier, etc., and is to render an accounting to B at the end of every six months. The books are kept by single entry. There are day book, check book provided with proper columns and space for deposits, drawing, and particulars, and a general ledger kept in accordance with the purpose of single entry. All moneys received or paid pass through the bank. You are engaged to render the accounting to B at the end of the first six months. State what information you would consider necessary to convey to B and how you would proceed to obtain it from the material at hand.

Question 296

What are the chief points to which attention should be directed in dealing with fluctuating currency in the books of accounts of merchants?

Question 297

An auditor, on completing an investigation of the affairs of an importing house, certifies that the accounts are

correct as recorded in the books. Would you criticize this certification? If so, why?

Question 298

An importer of automobiles receives shipments in accordance with bona fide orders placed against six months' acceptances with interest. He stores the merchandise in bonded warehouses subject to withdrawal. At the end of the fiscal period it is customary to omit from the inventory such warehouse goods as are left and also the acceptances unpaid. In being asked to certify the statement of conditions at a given time, how would you deal with this state of facts?

Question 299

A, B, and C are equal partners, each having subscribed \$5,000 to the partnership. A pays in \$3,000, leaving \$2,000 still due the partnership on his capital account. It is agreed for the present that this \$2,000 can remain unpaid, provided A pays interest on same, which he does. Later a dispute arises as to how this interest shall be credited. A claims that it should be included with the earnings of the business, the profits of which are to be divided equally among the three partners. B and C claim that this interest should be divided between them only, as they have fully lived up to their obligations under the partnership agreement, while A had only partially done so. To what account should the interest on the deferred payment be credited?

Question 300

In auditing the accounts of a manufacturing firm, what salient features of the cost ledger should receive attention?

Question 301

In auditing the accounts of a manufacturing contractor, what manipulations of the cost accounts should the auditor anticipate, to guard against inflating profits?

Question 302

What common expedient is resorted to by manufacturing contractors to hide their losses in the cost ledger?

Question 303

In auditing the accounts of a factor, what equitable method should the auditor employ to ascertain the amount of interest due to or from the consignor with respect to the account sales?

Question 304

What documentary evidence would you require to prove the acceptance of bills payable by a factor, against goods in transit?

Question 305

The value of the lease of a piece of property for 20 years, with privilege of renewal for a like period, is carried on the books at its value in fee simple. Would you pass this unnoticed? If not, why not?

Question 306

In the books of a manufacturing corporation whose accounts you are investigating for creditors, you learn from outside sources that accounts assigned to a discount company have been concealed. Explain how this may have been done and the methods you would pursue to detect it.

Question 307

Three corporations are to be merged. In examining the records of corporation B, formed three years previously with an authorized capital of \$250,000, you find the entire capital stock carried on the books as fully paid in. The facts you ascertain are as follows:

There are three directors, X, Y, and Z, composing all the subscribers to the stock. The payments have been received at a directors' meeting with all present. X subscribed for \$100,000 worth of stock and paid all in cash; Y subscribed for \$75,000 worth of stock and paid \$50,000 in cash and a note of \$25,000 on demand; Z subscribed for \$75,000 worth of stock and paid \$25,000 in cash and a note of \$50,000 on demand.

These notes are carried among the assets and are still unpaid at the time of your examination, no interest having been collected. Y and Z cannot make good. In preparing a report on this state of facts what recommendations would you make, and why?

Question 308

In auditing the books of a concern you detect the following:

A customer paid \$100 in currency on account of a debt and returned \$10 worth of merchandise. The entry in the cash book records a receipt of only \$90 and the return book a return of \$20. The money not properly accounted for was taken by the bookkeeper. In reporting these facts state where in this transaction you find a defalcation, a fraud committed, or an embezzlement.

Question 309

What method would you adopt to prove the outstanding certificates of stock to be correct as represented on the transfer ledger?

PENNSYLVANIA

Question 310

How far should an auditor inquire into the work of his predecessor, and what circumstances might affect his decision upon this point?

Question 311

Of what use is the minute book of a corporation to an auditor?

Question 312

Of what use are partnership papers to an auditor?

Question 313

You are called upon to audit the disbursements of a treasurer's account of a manufacturing company. The voucher system is in use. Five thousand vouchers are involved, these being paid by bank check which is attached to its voucher, or one of several it may have paid. You are expected to examine all the vouchers, although a number of them may have been journalized.

State your method of procedure, also how you know you have seen every voucher issued in the period under review. While this is going on, and may occupy some weeks in its discharge, office boys, clerks, manager, superintendents have access to the vouchers, and are allowed to take out and return for reference purposes of their own at will.

Question 314

How would you audit the receipts of a treasurer, they being deposited in the several depositories of the company? If not all deposited, what would you do to verify?

Question 315

A bookkeeper of a manufacturing concern fails to make all proper charges of time sales. No order book was kept. He retains twelve to fifteen hundred dollars yearly for many years of payments received on account of these time sales, by cashing the checks received in due course, out of the drawer, and deposits the said checks regularly in firm's bank account, properly indorsed by firm. How would you detect this?

Question 316

In auditing the books of a department store where sales checks are used, and are sent at once to the cashier with money offered in payment, should there be collusion between several salesmen and cashier by which a certain amount is retained by cashier for subsequent division among himself and associates in these transactions, he destroying the checks, how would you detect this and what method would you suggest for its suppression?

Question 317

If you are restricted in the scope of your auditing on a set of books, what part should you, as an auditor, insist upon doing?

Question 318

If you are called upon to audit the accounts of a trust

company or building and loan association whose principal investment may be mortgages, how would you prevent the introduction of cancelled or fictitious mortgages?

Question 319

In auditing the accounts of a firm you find a number of dishonored and overdue notes which form part of the balance of Bills Receivable account. State fully what you would do with these.

Question 320

How would you audit the accounts of a corporation whose capital was invested in the entire capital stock and bonds of a number of other corporations, and arrive at a correct result as to the profits of the company? Answer fully and give reasons for your action.

Question 321

What would be your mode of procedure in ascertaining the earnings of:

Gas companies?

Electric lighting companies?

Passenger railroads?

Answer fully, explaining the different accounts of each, going into operating expenses and betterments.

Question 322

In auditing trust companies holding funds of a decedent's estate, what are your duties as to the investments made from such funds?

Question 323

How far does your duty as an auditor require you to go

outside of the books, in furnishing a statement of the condition of a business at a given time?

Question 324

Under what conditions would amounts be charged to betterments at one time, and charged to operating expenses at a later date in railroads, electric companies, and gas companies?

Question 325

In ascertaining the profit or loss of a company which had been purchased for a stated amount of stock and bonds of a new company, without an inventory of the plant in detail, how would you arrive at a fair basis of yearly depreciation of plant?

Question 326

On a suspected embezzlement in a bank, how would you make a quick preliminary examination?

Question 327

Your certificate is desired by your client to be presented to a mercantile agency. Give your mode of procedure to get at a fair report, and give illustration of such report, using your own figures.

Question 328

State how you would make an examination of street railway and electric lighting, and gas companies, and what points you would examine with great care.

Question 329

Give your mode of procedure in examination of:

- (a) Industrial corporation
- (b) Manufacturing business (partnership)

Question 330

When a number of corporations are operating under their own charters, but managed and controlled by one other corporation, how would you state the results of the business:

- (a) When the controlling corporation owns a majority of the stock of each of the other corporations?
- (b) When the controlling corporation owns all of the stock of the other corporations?

Question 331

Give your mode of procedure in the examination of a building and loan association.

Question 332

Write a report of your audit of not more than one hundred words:

- (a) When the books are properly kept
 - (b) When the books are improperly kept
- using your own figures in both cases and showing the improper entries in the last case.

Question 333

In case a corporation of five persons owning all the stock should credit each party in proportion to their several holdings with the profits as shown by the books, without

formally declaring a dividend, and the said stockholders were also credited with interest on the undrawn credit balance, what would be your action?

Question 334

Take up a business you are familiar with and state fully how you made an audit.

Question 335

Explain the difference, if any, between an audit and an examination.

Question 336

How would you audit the stock certificate book of a corporation:

- (a) When the corporation has no registrar?
- (b) When the corporation has a registrar?

Question 337

In a business consisting of five separate departments there is kept a general ledger containing Capital account, the speculative accounts, such as Merchandise, Expenses, etc., and accounts with each separate department; sales ledgers containing the accounts of customers; and a purchase ledger containing the accounts of foreign and domestic creditors.

In the general ledger each department account is charged with all the purchases made for the department, and credited with cash received and allowances on account of sales of said department. The sales ledgers contain the different customers' accounts, showing charges for sales and credits for cash, allowances, etc., on account of sales. The pur-

chase ledger contains the accounts of the different creditors, showing credits for merchandise and charges for cash.

In making an audit of the books, how would you determine that the profit or loss for each department had been properly stated for a given period?

Question 338

In three successive fiscal years a manufacturing corporation values its supplies, etc., in hand at cost, with deductions for deterioration as follows: at end of first year, 5%; at end of second year, 10%; and at end of third year, 15%. With the inventory taken on this basis the profits for the second year did not equal the dividends declared, and surplus was intrenched upon; and in the third year the dividend paid was so much in excess of profits that the surplus was entirely exhausted and a debit balance created in the Profit and Loss account.

In auditing the books, how would you treat the above condition in your report?

Question 339

A wool dealer's business consists of the following transactions:

- (a) Buying and selling for his own account.
- (b) Receiving on consignment and selling for commission.
- (c) Consigning to other dealers for sale for his account.

All wool received, whether purchased or consigned, is charged to Merchandise account and credited to the vendors or consignors; and all wool disposed of, whether consigned

or sold, is credited to Merchandise account and charged to the purchasers or consignees. The prices in the *pro forma* invoices of consigned goods invariably differ from the prices shown in the account sales rendered to consignors or received from consignees. At the end of the year he prepares a statement treating all wool in his possession as inventory, and credits Merchandise account therewith; all debit balances on account of goods sold or consigned by him, as accounts receivable, and all credit balances on account of goods purchased or consigned to him, as liabilities. The accounts are clerically correct; you are asked to audit his accounts and certify to the correctness of his statement. How would you proceed to do this? Write a report thereon not exceeding two hundred words.

Question 340

A and B formed a partnership in a manufacturing business, each contributing \$25,000. The business was conducted in a building owned by B, for which B was to be paid \$10,000 rent per year. During three given years the profit averaged \$10,000; and A drew out \$1,000, \$5,000, and \$10,000 in the respective years, and B drew out \$3,000, \$4,000, and \$5,000. The rent account was adjusted in the books by crediting B in each year with \$5,000 and charging this amount the first year to A, the second year to expense, and the third year to B.

In an audit of the books, how would you state the accounts at the close?

Question 341

How would you proceed in making an audit of a stock broker who also does a banking business? Give full particulars, with an illustration, using your own figures.

Question 342

How would you proceed in making an audit of the books of a municipality? Give full particulars, with an illustration, using your own figures.

Question 343

How would you proceed in making an audit of an estate, including principal personality and income personality, and real estate and real estate income, where the interests of distributees include legacies to lineals and collaterals, annuities, widow's dower, life estates, and estates in remainder? Give full particulars, with an illustration, using your own figures.

Question 344

Describe in detail your method of conducting an audit of a commission house.

Question 345

If in examining a manufacturing corporation using a cost system in their shops, you find a large difference between the general books and the cost in the cost books, in what accounts would you probably be able to trace the difference?

Question 346

Is there any difference between a thorough audit and an examination? If so, state fully wherein they differ.

Question 347

Give a statement as to the duties of an auditor in relation to the bookkeeper and to his clients, and, if auditing a corporation, as to the stockholders of the corporation, covering confidences and personal contact.

Question 348

A firm of brickmakers, under the terms of their 20 years' lease, agree that at the close of the term they will level the ground, cover with soil, and generally restore to previous conditions for agricultural purposes.

(a) How would you deal with this liability in the accounts of the firm?

(b) Assume five years of term have expired and none of the work done and no provision made. How would you adjust matters at this date?

Question 349

The following are the accounts of the Real Estate Investment Company on June 30, 1906. State (limiting your answer to 200 words) the manner in which you would conduct an audit.

BALANCE SHEET, JUNE 30, 1906.

ASSETS

Real estate improved.....	\$450,000.00
" " unimproved.....	175,000.00
Office furniture.....	6,850.00
Investments in stock of other companies	76,000.00
Rents accrued but unpaid.....	20,500.00
Cash	22,150.00

Total assets.....	<u>\$750,500.00</u>
-------------------	---------------------

LIABILITIES

Capital stock, 10,000 shares \$100 each, \$50 paid.....	\$500,000.00
Mortgage bonds (5%).....	200,000.00
Reserve for depreciation.....	18,625.00
Income account.....	31,875.00

Total	<u>\$750,500.00</u>
-------------	---------------------

INCOME ACCOUNT FOR THE YEAR ENDING JUNE 30, 1906

CREDITS

Rentals	\$84,500.00	
Interest on investments.....	3,000.00	
	<hr/>	
Total credits....		<u>\$87,500.00</u>

DEBITS

Interest on mortgages.....	\$22,000.00	
Taxes	6,950.00	
Water rents.....	4,225.00	
Repairs and alterations.....	11,500.00	
Office and miscellaneous expenses	6,635.00	
Fire insurance.....	610.00	
Title insurance.....	417.00	
Legal expenses.....	2,500.00	
Auditors' fees.....	788.00	
Profit for year.....	31,875.00	
	<hr/>	
Total		<u>\$87,500.00</u>

Arising out of the last question, having completed the audit, draw up a short and concise report to the directors, calling their attention to any points in the accounts to which notice should be specially directed.

Question 350

In your audit there are two possibilities against which you would rigorously guard:

- (a) The overstating of debtor balances.
- (b) The understating of creditor balances.

Set out all practical checks you can think of.

Question 351

A concern engaged in building locomotives wishes to equip their machine shop with some new machinery of standard types, and determines to have it made in their own plant by their own workmen from material which they have in stock. By this means it will cost much less than if they bought it from outsiders. They desire consequently to charge "Machinery and Large Tools" account with the current market price of the machinery so produced, on the ground that their workmen, while making it, have been detached from other profitable employment.

Discuss this question pro and con, and say what you would advise to be done, giving your reasons.

Question 352

To what extent would you criticize the management in your report?

Question 353

Describe an audit of a trust company doing a banking business, acting as trustee for estates, trustee for bondholders of a corporation, and issuing title, surety and fidelity bonds, giving your views as to how you would arrive at the liability of the company as to the title, surety and fidelity bonds.

Question 354

The report to the Comptroller of the Currency by the Blank National Bank on June 15, 1906, and again on July 20, 1907, showed as follows :

RESOURCES

	June 15, 1906	July 20, 1907
Loans and discounts.....	\$3,551,140.20	\$3,670,785.13
U. S. bonds to secure circulation and U. S. deposits....	547,000.00	450,000.00
Premiums on U. S. bonds.....	13,000.00	12,000.00
Bonds, securities, etc.....	370,244.25	410,570.75
Banking house, furniture, etc..	70,694.16	129,198.80
Due from banks and bankers..	613,753.18	520,734.39
Royal Bank of Dublin, Ireland	36,215.48	42,486.15
Due from approved reserve agents	537,456.91	472,646.47
Checks and other cash items..	24,247.54	83,411.83
Exchanges for Clearing House	281,933.18	199,179.10
Notes of other national banks	2,850.00	200.00
Fractional currency, etc.....	495.55	1,974.61
Lawful money reserve in bank	411,218.15	522,225.80
Redemption fund with U. S. Treasurer	20,250.00	24,250.00
Total	<u>\$6,480,498.60</u>	<u>\$6,539,663.03</u>

LIABILITIES

Capital stock paid in.....	\$600,000.00	\$600,000.00
Surplus fund.....	500,000.00	550,000.00
Undivided profits less expenses, etc.	115,754.47	109,566.46
National bank notes outstanding	408,000.00	400,400.00
Due to banks and bankers....	956,437.76	1,119,598.80
Individual deposits subject to check	3,463,436.50	2,802,915.26
Certificates of deposit.....	33,665.00	15,585.56
Certified checks.....	6,226.71	4,124.50
Cashier's checks outstanding..	142,978.16	402,472.45
United States deposits.....	144,000.00	45,000.00
Bonds borrowed.....	110,000.00	
Notes and bills discounted....		490,000.00
Total	<u>\$6,480,498.60</u>	<u>\$6,539,663.03</u>

Accounts current received from the Royal Bank of

Dublin show a credit balance in favor of the Blank National Bank on June 15, 1906, of £7,624/8/4, and on July 20, 1907, of £9,337/14/6.

(a) You are retained by the board of directors of the bank to make an examination on July 20, 1907, and to make an audit in connection therewith of the accounts from June 15, 1906. State how you would propose to carry out these instructions, describing your process in the order in which you think the several steps should be taken, and discussing carefully each item shown on the foregoing statements, together with such other accounts appearing in connection with your answer to part (d) of this question as you think should be examined.

(b) Do the ledger balances against the Royal Bank of Dublin show the correct status of this account? How would you prove that they do, and, if you found the balances stated above to be wrong, what entry would you make to correct?

(c) Describe more fully the "liability ledger" (or what is known in some banks as the "credit ledger" and in others as the "line ledger") and state whether you think it should prove with any general ledger account or be kept by single entry purely. If the former, show how you would accomplish your purpose.

(d) From the foregoing and your knowledge of banking, outline a system of accounts suitable for the Blank National Bank, describing (in sufficient detail to indicate your understanding) the principal books and blanks used in the several departments, but showing no forms.

Question 355

What are the distinguishing features of:

Mortgage bond?

Collateral trust bond?

Income bonds?

Question 356

What is the purpose and method of registering stock certificates and other corporate securities?

Question 357

The following are summarized trial balances of a manufacturing company as of December 31, 1906, and June 30, 1907:

	December 31, 1906	June 30, 1907
Capital stock.....	\$300,000.00	\$300,000.00
Debentures	100,000.00	100,000.00
Cash	\$25,127.96	\$34,321.90
Inventory	351,362.14	396,609.50
Accounts payable	15,256.59	19,690.23
Accounts receivable	24,200.50	54,009.16
Real estate buildings, etc.....	110,910.54	115,602.73
Stocks and bonds	21,650.36	22,321.14
Unexpired insurance	1,550.25	1,824.67
Surplus	119,545.16	119,445.16
Profit and loss account, 1907		85,553.71
	<u>\$534,801.75</u>	<u>\$624,689.10</u>
	<u>\$534,801.75</u>	<u>\$624,689.10</u>

The books of the company were audited as at December 31, 1906, and in making up the accounts at that date the auditors made the following adjustments of the above trial balance figures:

- (1) Transferred to profit and loss \$8,462.14, which had been improperly charged to real estate and buildings.
- (2) Wrote off \$3,600 for depreciation of buildings, etc.

- (3) Brought into account expense liabilities amounting to \$1,250 which had been incurred in 1906, but were not entered on the books until January, 1907.
- (4) Reduced the value of inventory by \$14,920.

The auditors were again called in at June 30, 1907, and found that the adjustments made by them at the previous audit had been ignored so far as the books were concerned. They also found that during the half year \$1,000 had been charged to buildings instead of to expense account; that no provision had been made for depreciation during the year amounting to \$1,800, and that the inventory of June 30th was overvalued to the extent of \$9,840. On the other hand, the insurance unexpired was incorrectly calculated and should have been \$2,774.67 instead of \$1,824.67.

(1) Prepare the audited balance sheet at June 30, 1907.

(2) State the amount of the profits for the half year as audited.

(3) Prepare schedules showing how the audited balance sheet is made up and how it can be connected with the book figures.

Question 358

What is the distinctive difference between an insurance company that is known as a "mutual company," and one that is known as a "stock company"?

Question 359

You are retained by the Appliance Manufacturing Company to audit its accounts for the year ending June 30, 1907, and to prepare the balance sheet, trading and profit and loss accounts for the year.

You are expected to write a brief report of not less than

200 and not more than 400 words dealing with your audit, showing its scope and discussing any matters relating to the accounts which may seem to you to be of interest.

The company was incorporated on July 1, 1906, and its balance sheet on that date showed as follows:

ASSETS

Cash	\$12,680.92	
Bills receivable.....	2,200.00	
Book accounts receivable.....	19,501.33	
Merchandise material on hand....	9,554.43	
Machinery and tools.....	129,355.01	
Furniture in office and store.....	11,762.18	
Expenses of incorporation.....	500.00	
Book accounts receivable in sus- pense	1,983.40	
Good-will	40,000.00	
Total		\$227,537.27

LIABILITIES

Bills payable.....	\$10,901.07	
Book accounts payable.....	15,617.04	
Capital stock.....	200,000.00	
Reserve for suspended accounts receivable	1,019.16	
Total		\$227,537.27

The trial balance of June 30, 1907, was as follows:

Cash	\$5,259.80	
Notes receivable.....	5,048.75	
" payable.....		\$16,922.81
Sales		240,172.56
Materials and supplies.....	52,088.94	
Sundry merchandise bought.....	2,869.80	
Selling wages.....	22,400.04	
Manufacturing wages.....	88,317.70	
Miscellaneous receipts.....		549.20
Office salaries.....	5,802.50	

Trial Balance (Continued)

Manufacturing expenses.....	15,353.16	
Office expenses.....	2,496.14	
General selling expenses.....	3,491.50	
Advertising	2,064.33	
Light, heat, and power.....	3,121.97	
Rent of factory.....	4,000.00	
" " store and office.....	1,860.29	
Repairs to machinery, etc.....	845.78	
Delivery expenses.....	2,201.01	
Interest and discount.....	738.40	
Commissions	5,089.30	
Machinery and tools.....	132,817.24	
Dividend (paid January 10, 1907).	6,000.00	
Furniture, etc., in store and office	12,016.45	
Book accounts receivable.....	58,935.20	
" " payable.....		18,311.16
Expenses of incorporation.....	500.00	
Reserve for suspended accounts..	320.59	
Good-will	40,000.00	
Capital stock.....		200,000.00
Accounts receivable in suspense..	2,316.84	
Totals	\$475,955.73	\$475,955.73

The inventory of merchandise and material amounts to \$12,453.90.

You discover the following facts not disclosed by the books:

(a) Invoices not entered:

Maryland Steel Co., dated June 15, 1907,	
for steel.....	\$165.00
York Safe & Lock Co., dated June 1, 1907,	
for office safe.....	110.00
Vulcan Coal Co., dated May 20, 1907,	
for coal.....	42.50
	<u>\$317.50</u>

(b) The company made in its shop for its own use five machines, in the construction of which it used material costing \$525, and the mechanics' wages amounted to \$750.

Question 360

Wherein do municipal accounts differ from private accounts as to capitalization and revenue?

Explain fully as to the receipts and disbursements of funds.

Question 361

Describe the functions and method of operation of a stock exchange clearing house and point out the differences between a stock exchange clearing house and a bank clearing house.

Question 362

The B & E Company is a wholesale trading concern, having its headquarters in Lancaster, Pa., and maintaining branch stores in a number of cities; Richmond, Va., among others. These branch stores receive their goods upon consignment from the head office; keep the accounts with their customers; make collections thereon; keep local bank accounts; pay current expense bills and remit their excess funds from time to time to the head office. The manager of the Richmond branch is employed on a small, fixed salary and a commission based on the sales, the latter compensation being forwarded to him quarterly by check from the Lancaster office. Without intending to steal, he adopted the habit of anticipating the arrival of his check and withheld collections received from customers, making no entries therefor upon the books for the time being, but being careful, however, not to hold any one item longer than a few days, thus constantly replacing out of the current receipts items previously withheld. Upon receipt of his quarterly check for commissions he would at once make good the amount he had in the above manner advanced from the company's funds to himself.

(a) If you were instructed to audit the accounts of B & E Company, including those of the branch offices, would your audit disclose this condition, and, if so, concisely and carefully describe the course you would pursue.

(b) What criticisms have you to offer relative to the administrative plan of the B & E Company as outlined above?

(c) Describe clearly the form of accounts you think is best adapted to this business if it were operated in accordance with the methods best suited, in your judgment, for the management of a business maintaining branch stores.

Question 363

You are instructed by the receiver of an importing and trading concern to examine the accounts and report to him:

(a) The financial position of the concern, and

(b) The causes that have mainly contributed to the failure.

In your answer, prepare a statement of the assets and liabilities in such form as you think should be used for the information of the receiver and the creditors, and under (b) state the matters to which you would direct your attention, having in mind the nature of the business, and how you would proceed with your investigation.

Question 364

The North & South R. R. Company has demolished its old wooden station at a certain city on its line, and has erected in its place a larger and more ornate structure of brick and stone at a cost of \$100,000 in excess of the book value of the old building, after deducting the salvage. Bearing in mind that this expenditure of \$100,000 does not materially increase the earning capacity nor decrease the oper-

ating expenses of the company, what disposition should be made of this item in the accounts? State the general principles that should govern an accountant in dealing with this class of expenditure, whether occurring in a railroad or any other property.

Question 365

Describe a system of internal check for use in a gas company to protect it from loss of revenue.

Question 366

What methods would you adopt in an audit of a street and interurban railway to prove the earnings?

If you found that proper precautions had not been taken, describe the plans you would recommend to such a company so as to insure the collection of all of its earnings.

Question 367

A coal mining corporation proposes to issue bonds of the denomination of \$1,000 each, to the amount of \$500,000, on January 1, 1911, bearing interest at 6% per annum, payable semiannually, January 1 and July 1. Under the terms of the mortgage a fund equal to ten (10) cents per ton of coal shipped is to be set aside semiannually for the first three years and at the rate of twelve (12) cents per ton thereafter, the fund to be used as follows:

- (1) To pay the interest on the bonds.
- (2) After paying interest the balance is to be used to redeem and cancel bonds at par as of the dates on which the interest is paid; any balances remaining in the fund thereafter to be added to the fund of the next period.

It is estimated that the tonnage will be 400,000 tons each six months for the first three years and 500,000 tons each six months thereafter.

Prepare a tabular statement showing concisely the operations and the result of the carrying out of the proposed plan based on the foregoing estimates.

Question 368

You are called on to make the annual audit of accounts of the Manufacturing and Trading Corporation, for the year ending Tuesday, 31st May, 1910, a concern owning its own plant subject to a mortgage, the interest on which is due semiannually, January 1 and July 1.

It markets its own product and several hundred men are employed in the manufacturing plant, wages being paid weekly on Wednesdays for time up to and including preceding Fridays. The financial books are kept double entry, all the general accounts and the accounts payable being in one large bound ledger. The main property and operating accounts are: Merchandise, for purchases of material, etc., sales of product, and adjustments in respect of both; Wages, for all wages paid; Factory Expenses, including repairs to machinery and building, machinery supplies, power, and insurance; Expense account, for salaries of officers, office force, and salesmen, advertising, traveling and other general expenses; Real Estate, Machinery and Equipment, Bills Receivable, Bills Payable, Accounts Payable, and Mortgages.

The customers' accounts are in a separate ledger. The other books and records are: a bound order book, a bound sales book, a main cash book (discount columns both sides) containing entries of payments by check and in currency—any cash receipts from customers being usually retained at the office and used for making currency payments; and checks drawn for amounts slightly in excess of pay-roll

requirements, the excess going into the drawer; a pay book or journal containing entries of purchases of materials and adjustments thereof, adjustments of sales, bills receivable, and other items of a general nature; a bills receivable and payable book; capital stock ledger, certificate book, and fer book; minutes; time records and pay-rolls.

The inventory has been prepared by the company, the valuations being at selling prices less an allowance for cost of marketing. The minutes disclose no authority for the amounts of salaries drawn by or credited to the officers.

(a) State the work you would propose to perform in making the audit.

(b) Write a comprehensive report on the audit and on the balance sheet and profit and loss account which you would submit, and

(c) State the recommendations, if any, you would make regarding methods of accounting and administration.

Question 369

The Indiana Manufacturing Company manufactures steam engines and does a large repair business upon engines and other classes of machinery. What accounts would you provide for expenses (other than selling) which cannot be charged directly to jobs or shop orders? Describe the various methods of distributing these general expenses, frequently spoken of as "shop burden," to the several shop orders. Which method would you recommend for use in a factory:

(a) Containing a large number of costly machines?

(b) Where relatively few high-priced machines are used and where there is a large proportion of bench work by skilled employees?

Question 370

The books of the Mapes & Manning Company, manufacturers of and dealers in farm implements, show for the past five years net profits as follows:

1906.....	\$177,000
1907.....	143,000
1908.....	206,000
1909.....	16,000
1910.....	98,000

You are instructed by a banking syndicate to examine the accounts of the company and report upon the profits during the above period. In the course of your examination you ascertain the following facts:

Current liabilities were not taken into the accounts, as follows:

January 1, 1916,	for New buildings.....	\$42,000
	Accrued wages.....	<u>5,300</u>
December 31, 1906,	Repair charges.....	\$2,600
	Accrued wages.....	<u>2,900</u>
December 31, 1908,	Merchandise invoices	\$6,800
	Current expenses...	<u>5,400</u>
December 31, 1910,	Accrued wages.....	\$3,200
	Materials and sup- plies	4,600
	Shop equipment....	<u>8,400</u>

At December 31, 1910, the company engaged two real estate experts to appraise its land and buildings. The lower of the two showed a present value of \$587,000, and this valuation was adopted by the board of directors, who instructed the bookkeeper to charge Real Estate account and credit Profit and Loss at the above date with the difference

between the foregoing amount and the book figures of \$560,000.

A mortgage of \$200,000, bearing 5%, remained upon the property during the whole of the period under review, and interest on this mortgage was charged before arriving at the book profits.

Satisfactory provision was made in each year for depreciation of buildings, machinery, etc.

Revise the profits for each year in accordance with the facts disclosed by your examination, and draft the form of certificate you would be prepared to give thereon to the bankers for prospectus purposes.

Assuming that after submitting this certificate to your clients they prefer instead to publish a certificate showing the average profits for the five-year period, what position would you take and what form of certificate would you be willing to sign?

Question 371

A manufacturing concern is required to carry a six months' supply of a certain kind of raw material, and, as the material is not of the kind that can be purchased every day, they must purchase it at any time it is offered to them. For this reason the prices fluctuate sometimes very considerably. When they purchase this material, they pay cash for same and have the material shipped in as wanted. What method would you use in arriving at the cost of this raw material used during any one month in manufacturing?

Question 372

A textile mill, employing some 700 hands, operates five departments with a superintendent or head foreman in each. About 500 hands are paid upon a piece-work basis, 50 on a part piece-work and part day rate, according to the duties

assigned to them from day to day; 100 are on a straight day rate basis, while the remainder are paid weekly salaries but no overtime. Describe clearly and concisely the methods you would recommend for assembling and recording the data entering into the weekly pay-roll. Also state how you would have the pay-roll prepared and the wages, as shown thereon, paid to the hands, having in view both economy in the clerical work and securing of proper safeguards against frauds.

Question 373

(a) How should advancements which appear in the inventory and appraisalment of a decedent's estate be treated by the executors in distributing the principal to the heirs?

(b) In the absence of instructions in the will, what disposition should be made of sale of "rights" or "warrants" by an executor?

(c) An executor of an estate in Pennsylvania forecloses a mortgage owned by the estate, and title is taken to the property, the property remaining in the estate at the time of filing his account. How should the transaction appear in his account?

Question 374

The following is a financial statement of the Homestead Land Company on commencement of business, January 1, 1908:

ASSETS		LIABILITIES	
Land	\$500,000	Capital stock.....	\$100,000
Cash	70,000	Bonds author-	
Discount on bonds....	5,000	ized	\$500,000
		Less not sold.	25,000 475,000
<hr/>		<hr/>	
Total	\$575,000	Total	\$575,000

The land shown represents 10,000 acres, which were acquired at the rate of \$50 per acre. The bonds issued by the company are dated January 1, 1908, maturing January 1, 1928, and bear interest at 5% per annum, payable July and January 1st. Under these bonds the company is required to pay into the hands of the trustee, as a sinking fund for their redemption, the sum of \$50 for each acre of land for which the company has received full payment and conveyed title. (Note that the company has complied with this requirement during the year and the trustee has advised, at December 31, 1908, that he had in his possession the sum of \$153,500, of which sum \$3,500 represented interest on the funds in his hands.)

The object of the company is to divide its property into 10-acre plots, which it sells at the rate of \$75 per acre when paid for in cash, or \$100 per acre when the plots are sold on the instalment payment plan. This latter plan provides for the payment of \$20 per acre in cash at the date of purchase, and the balance to be covered by four notes of equal amounts, maturing one, two, three, and four years after the date of purchase; the first two notes not bearing interest, but the two latter to bear interest at the rate of 5% per annum. During the year ended December 31, 1908, 300 plots were sold for cash and title conveyed to the various purchasers; also during the same year 300 plots were sold on the instalment plan as outlined in the foregoing.

Expenses not subject to inference from the foregoing:

Administration.....	\$2,500
Salaries.....	5,000
Advertising.....	5,000
Taxes accrued, not paid....	2,500

Prepare a balance sheet at December 31, 1908, and a profit and loss account for the year ended on that date.

Question 375

In a given trade, goods are purchased on terms of 5% discount for cash in ten days, or net thirty days. In certifying a balance sheet in this trade, how would you deal with the question of this discount in stating the value of the inventory of merchandise on hand? Give your reasons for the treatment you would advocate.

Question 376

You are retained to make an examination of the accounts of a hardware manufacturing company, and prepare a balance sheet and a statement of its earnings for the past ten years, the examination to be of sufficient scope to enable you to issue a certificate to the balance sheet and also to give the assurance that the statement of earnings presented is substantially correct.

Give an outline of your audit procedure, showing to what extent you would carry your examination in respect to the several classes of assets and liabilities, and, if it were stated to you that depreciation of the plant and equipment had been provided for through the inclusion in the manufacturing cost of expenditures for new additions and betterments, what method would you take to ascertain the extent of such provision?

Question 377

A company issues \$1,000,000 bonds (denomination \$1,000 each), dated January 1, 1910, bearing interest at 5% and maturing January 1, 1920. These bonds were sold at 80% of their par value.

The mortgage provides for a sinking fund to be created by annual payments of \$50,000, and at December 31, 1911, the balance sheet of the company, among other items, shows the following which relate to these transactions:

Discount on bonds.	debit, \$ 160,000.00
Trustee of sinking fund.	debit, 102,000.00
First mortgage bonds.	credit, 1,000,000.00

On January 1, 1912, the trustee purchased 113 bonds out of the funds in his possession at \$900 each, which were cancelled.

State what entries should be made in respect to these transactions; also give your views as to the proper treatment of discount on bonds, both as to when they are purchased and cancelled, as in the foregoing, and when they are not redeemed until maturity.

Question 378

You are instructed to examine and report upon the accounts of an electric lighting company in Upper Woodland, Penna., on behalf of a banker with a view to his purchasing and operating the property.

The company supplies light and power to manufactories, the municipality, miscellaneous business establishments, residences, etc., under the usual varieties of contracts.

(1) Describe fully the information usually required for a complete report.

(2) Upon arriving on the field you find that the only records of the company's financial operations are a bank account, a meter readings book, copies of bills rendered to consumers but no consumers ledger, miscellaneous paid and unpaid bills for purchases and expenses, and capital stock books. The principal owner of the company being in the supply and contracting business has financed and constructed the property, but his operations in respect of same have not been spread on the company's accounts with exception of partial payments on account which appear in the bank account. Describe fully your procedure in procuring the necessary information for your report.

Question 379

What recommendations would you make for preventing fraud in the following departments of a bank :

- (1) Depositors' accounts?
- (2) Loans?
- (3) Revenue and expense accounts?

Discuss fully your recommendations and give the reasons in support of them.

Question 380

(a) Outline the revenue and expense accounts of a life insurance company and their proper treatment at annual closing periods.

(b) In the annual report of a life insurance company to the Insurance Department of Pennsylvania, what is comprised under the captions :

“Non-Ledger Assets”?

“Non-Ledger Liabilities”?

Question 381

You are retained by the prospective purchaser of a business to make an examination of the accounts covering a period of five years ended December 31, 1911.

The vendor has furnished the following statement to the prospective purchaser :

Gross profits—yearly average.....		\$315,000.00
Expenses—	“ “	220,000.00
Net profit—	“ “	<u>\$95,000.00</u>

Also balance sheet as follows:

Assets:

Cash	\$ 20,000.00	
Accounts receivable.....	250,000.00	
Bills receivable.....	50,000.00	
Merchandise on hand as inven-		
toried	500,000.00	
Deferred charge for commissions		
due salesmen.....	10,000.00	
Total		\$830,000.00

Liabilities:

Accounts payable.....	\$120,000.00	
Bills payable.....	200,000.00	
Accrued commissions.....	10,000.00	
Capital	500,000.00	
Total		\$830,000.00

You find from the books that the following items constitute the entries in the Profit and Loss account for the period:

GROSS SALES		SELLING EXPENSES	
1907.....	\$1,000,000.00	1907.....	\$175,000.00
1908.....	900,000.00	1908.....	125,000.00
1909.....	1,250,000.00	1909.....	160,000.00
1910.....	1,000,000.00	1910.....	115,000.00
1911.....	1,000,000.00	1911.....	115,000.00
COST OF GOODS SOLD		ADMINISTRATIVE AND GENERAL EXPENSES	
1907.....	\$650,000.00	1907.....	\$100,000.00
1908.....	600,000.00	1908.....	95,000.00
1909.....	925,000.00	1909.....	80,000.00
1910.....	700,000.00	1910.....	75,000.00
1911.....	700,000.00	1911.....	60,000.00

NOTE: Gradual reduction of administrative expenses effected by proprietor taking smaller compensation for his own services each year.

Losses incurred through failure to collect sundry debtors' accounts during the last three years, amounting to \$15,000,

\$45,000, and \$65,000, respectively, were charged to the proprietor's capital account.

The terms under which the business is to be sold are based on the value of the net assets at December 31, 1911, plus an amount equivalent to one-half of the net profit for the five years. On this basis the vendors have asked for \$737,500.

Write such a report as you would submit to your client (using the figures and other information contained in this question), with the proper exhibits and comments upon them as to features which would be of interest to your client as a purchaser of the business.

Question 382

Describe methods for determining on behalf of the insurance companies the value of a stock of merchandise on hand at the date of a loss by fire in a trading establishment under each of the following conditions:

- (1) Where the inventories are taken but once a year at the annual closing of the books.
- (2) Where a card or loose-leaf record is kept of quantities only of each article.
- (3) Where monthly book inventories are arrived at by extending cost of sales in the sales records.

And what special considerations would there be to which your attention should be directed before arriving at your conclusion?

Question 383

You are called upon to close the books of a contractor in a building operation. Describe fully and specifically what you would take into consideration in the closing of the said books.

Question 384

Write fully your mode of procedure in making an audit of a municipality. Give full particulars, with an illustration, using your own figures.

Question 385

A manufacturing company, owning many patents and constantly acquiring new ones, some by way of outright purchase and about an equal number being taken out as the result of the efforts of its own experimental department, asks you to outline the best method of dealing with this account, having in mind:

- (a) The ascertainment of costs of manufacture.
- (b) The annual balance sheet which is submitted to stockholders and to the general public.

Outline fully your views on this subject.

Question 386

Messrs. Brown & Wilson have applied to the Pennsylvania National Bank for a loan of \$20,000, and have submitted the following profit and loss account and balance sheet:

PROFIT AND LOSS ACCOUNT

For Year Ending June 30, 1912

Stock at July 1, 1911.....	\$50,000.00
Purchases	40,000.00
Wages and salaries.....	8,000.00
Office expenses.....	7,000.00
Miscellaneous expenses.....	15,000.00
Interest on loans.....	2,700.00
Bad debts.....	800.00
Profit	37,000.00
	<hr/>
	\$160,500.00
	<hr/>

Sales less returns.....	\$80,000.00
Stock at June 30, 1912.....	75,000.00
Dividends on investments.....	5,500.00
	<hr/>
	\$160,500.00
	<hr/>

BALANCE SHEET, JUNE 30, 1912

Assets:

Book debts.....	\$250,000.00
Stock as per inventory.....	75,000.00
Investments at cost.....	50,000.00
Good-will	10,000.00
Lease of premises.....	5,000.00
Furniture	1,000.00
Cash	500.00
	<hr/>
	\$391,500.00
	<hr/>

Liabilities:

Trade creditors.....	\$344,500.00
Loans	27,000.00
Partner's capital at July 1, 1911..	\$8,000.00
Profit for year.....	37,000.00
	<hr/>
	\$45,000.00
Less drawings during year.....	25,000.00
	<hr/>
	\$391,500.00
	<hr/>

The bank has handed you these accounts and asked for your opinion as to the advisability of making the loan and as to the form in which the accounts are presented.

Question 387

What do you understand by "Perpetual Inventory"? How is it maintained and how may it be verified? What would you require in relation to such an inventory before accepting it in a balance sheet under your audit without qualifying your certificates?

Question 388

A manufacturer owes \$100,000 on his plant at 5% per annum, due at the end of five years from date. He secures an agreement, however, to pay the debt in equal annual instalments which will include principal and interest. What amount is he required to pay each year?

Question 389

A company, whose accounts you are auditing, shows among its assets an item of \$100,000 for a lease upon a warehouse. The lease was acquired ten years ago and has still forty years to run. The book value consists of \$50,000 paid for the lease at the time it was acquired and an additional \$50,000 expended upon rebuilding property five years ago. Nothing has heretofore been written off the asset account and its present realizable value is conservatively estimated at \$150,000.

In preparing the accounts for the present year the following methods have been proposed by various officials, and you are asked to decide which one should be adopted, giving your reasons therefor, as well as the reasons upon which you base your decision in rejecting the others:

- (1) The property being worth more than the book value, nothing should be written off.
- (2) Such profits as it is not desired to distribute in dividends may occasionally be written off in reduction of the account.
- (3) An equal one-fortieth part should be written off annually.
- (4) A sinking fund should be created that would produce \$100,000 upon the expiry of the lease.

Question 390

The Atlas Trading Company leases a store for a period of ten years at a total rental of \$450,000, to be paid in monthly instalments of \$3,750 each. Before the lease goes into effect, however, an arrangement is entered into whereby the company agrees to pay \$25,000 on the date upon which the lease takes effect. For this payment they are to receive a credit of \$30,000, applying on the total rental of \$450,000, the difference between the amount of the credit and the amount actually paid being intended to represent compound interest on the advance.

Under the revised lease the company agrees to make monthly payments for the original period of ten years at the rate of \$3,500 per month.

State concisely how you would treat upon the books of the company the transactions arising under this lease.

Question 391

The Scranton Land Company is incorporated and purchases fifty acres of land, which it subdivides into blocks and lots. It then negotiates the sale of first mortgage bonds secured upon the whole property in an amount equal to one-third of the purchase price of the property. From the proceeds of the bonds sold, the company proposes to make streets, sewers, sidewalks, and carry out other necessary improvements before placing the lots upon the market for sale.

Sales of lots are to be made upon contracts calling for payment as at date of execution, amounting to 10% of the sale price of each lot sold, the balance to be paid in monthly instalments of 10%, each title to pass to the purchaser as soon as he has paid one-half.

Outline a system of accounts to show the original in-

vestment, bonded indebtedness and the application of the proceeds of the bonds, the contracts for sale of lots, the liquidation of these contracts, and having particular reference to the ascertainment and distribution of profits.

Question 392

Prepare a sample statement of an administrator's final account for presentation in a probate court.

Question 393

The duly appraised inventory dated January 1, 1910, of the estate of John D. Hamilton, deceased, contained the following item:

50 Shares Plumbers National Bank

\$100 each par value at 550.....\$27,500.00

The bank for a period of years has consistently paid semiannual dividends of 12%.

On February 1, 1910, the bank declared its usual 12% semiannual dividend; wishing to increase its capitalization it paid the dividend in cash, and gave its stockholders the option of buying new stock to the amount of the dividend, at par.

The executors indorsed and returned the dividend check, receiving in exchange the six shares of new stock.

Thereafter they sold stock as follows:

March 1, 2 shares, at.....\$500 each

March 3, 2 shares, at..... 495 each

March 15, 4 shares, at..... 480 each

The income of the estate is payable to two sisters of the decedent, Helen H. Winter and Sarah H. Samuels, during their lives, and a brother, William B. Hamilton, is the residuary legatee.

In respect of the above transactions show the effect thereof upon the interests of each of the three beneficiaries. Give your calculations in full.

Question 394

What are the present requirements of the Interstate Commerce Commission relative to the treatment of depreciation in the accounts and reports of railroad companies?

Question 395

You have audited the accounts of the Standard Manufacturing Company for the year ending June 30, 1913, and are asked to give a certificate covering the balance sheet and profit and loss account for the year, this certificate to be published by the company in its printed annual report. Draft the form of certificate you would give in each of the following circumstances: (a) if the company has given effect in its accounts to all the adjustments you have deemed necessary; (b) if the company has provided for everything except depreciation upon its factory buildings and equipment; and (c) if the company has not agreed to the following adjustments which you have urged: (1) additional reserve for loss on trade debtors, \$20,000; (2) liabilities for damage claims estimated at \$12,000; and (3) overvaluation of the inventory, \$18,000. In considering the relative effect and importance of these adjustments it may be assumed that the profits before adjustment have been for the year under audit \$100,000.

The purpose of this question is to disclose the candidate's knowledge of the principles governing an accountant in the issuance of audit certificates, and in considering replies due weight will be given to form and phraseology.

Question 396

Prepare a comprehensive report together with rough sketches of the necessary forms recommending a system for the collateral loan department of a national bank having loans secured by stocks and bonds aggregating \$10,000,000, the majority of which are loans to brokers. Of the total loans \$4,000,000 are time loans and the balance demand loans, and in number they aggregate about five hundred.

The bank maintains an audit department, and provision should be made outlining a system for continuous daily audits of the loan department.

It is understood that the bank will not adopt any system which will result in a delay in effecting the daily transactions or cause annoyance to its customers.

Question 397

You are engaged to audit the accounts of the X Company, manufacturers of hosiery—this company operating four mills, the product of which consists of numerous grades and styles. The company is without a cost system but endeavors to ascertain its costs by taking the estimated quantities of cotton or silk to which is added a labor cost determined by tests, and to the total thus obtained an arbitrary percentage is added to cover general expenses, etc.

The general books consist of a ledger, cash book, journal, and voucher record. Invoices are entered after approval and have stamped thereon the date of approval. The receiving record consists of loose memoranda in pencil containing the name of the party from whom materials were received and the number of cases, but no further details.

Give full particulars as to the steps you would take to verify:

- (a) The inventory
- (b) The liabilities

Question 398

A real estate company for the purpose of obtaining cash to be used in developing a large tract of land assigns the mortgages, taken in part payment of land sold, to a trust company as trustee, whereupon the trust company delivers bonds to the real estate company, which are then sold to the general public.

You are called in to examine the books of the real estate company and discover an apparent sale of land has been made to a syndicate, the members of which are directors of the company. Payment for the land sold to the syndicate was made by means of notes and mortgages of the syndicate. The mortgages were delivered to the trustee, bonds received and sold for cash. The minute books contain an agreement with the syndicate members to repurchase the land from the syndicate at the price paid by the syndicate therefor. How would you treat this transaction in preparing the balance sheet of the real estate company, and what comments, if any, would you make in your report?

Question 399

Describe and illustrate by condensed forms the books, etc., required to record to the best advantage the operations of:

- (a) The loan department of a large national bank.
- (b) The trust department of a large trust company.

Discuss the best method for disbursing salaries in a bank having a staff of one hundred people, and what records thereof would you suggest be kept?

How would you vouch charges to board fees in a bank audit?

How should collection charges to customers or deductions for same be handled and recorded in order that they

may be properly accounted for and susceptible of easy audit?

State all the reasons for an auditor confirming collateral loans by correspondence with the borrowers.

Question 400

Discuss fully the items that would appear in the balance sheet of a stock and bond brokerage firm at the close of the fiscal period.

In closing the books at the end of the period what items should receive special consideration and adjustment in order that the accounts may reflect the true financial condition and the correct results of operation?

Question 401

Describe in sufficient detail and in such manner as to be readily understood by your client, the books and records you would recommend for the proper handling of cash receipts and cash disbursements in a large importing and jobbing concern having several thousand customers in the city and throughout the Eastern states. Your answer should comprise a description of the books, etc., with rough condensed outline of forms, and also prescribe how the funds should be handled and safeguarded; and should disclose the probable conditions and the problems that would have to be solved.

Question 402

Describe your method of verifying a pay-roll of a manufacturing concern employing 2,500 men, some of whom are piece-workers and the balance on day rates.

Question 403

A coal mining company owning the mines it operates,

having \$500,000 5% bonds outstanding, redeemable by an annual sinking fund to be derived from profits, and with a floating debt of \$100,000 represented by notes payable, makes the following statement of its operations to a banker who asks you to examine and criticize it, to wit:

PROFIT AND LOSS ACCOUNT

For Year to 30th June, 1913.

Sales of coal, 250,000 tons.....		\$300,000.00
Mining labor.....	\$215,000.00	
Supplies, expenses and repairs....	30,000.00	245,000.00
		<hr/>
		\$55,000.00
Rents and miscellaneous income.....		12,000.00
Steel car earnings, net of repairs.....		20,000.00
		<hr/>
		\$87,000.00
Selling expenses, including agents' commissions	\$10,000.00	
General office expenses.....	4,000.00	
Legal	500.00	
Taxes	2,500.00	
Interest and discount.....	35,000.00	\$52,000.00
		<hr/>
Net profits.....		<u>\$35,000.00</u>

What comments or criticisms would you submit?

Question 404

A department store having twenty-five departments retains an accountant to revise their old system, and to thoroughly reorganize their books so that the firm could, by looking at one book, know at all times the exact standing of each department. Explain fully your idea as to plan and contents of such a book; also give a full explanation as to the accounting system you would provide for the C. O. D. business of a department store.

Question 405

A contracting firm have agreed to dissolve partnership, A continuing the business. There is no provision in the partnership papers governing a dissolution. A had $\frac{2}{3}$ interest and B $\frac{1}{3}$ interest. They have quite a number of unfinished contracts. In arriving at a settlement what accounts would you find it necessary to deal with and how would you treat each one? Explain fully and, if necessary, supply your own figures.

Question 406

Describe fully an audit of an automobile factory, especially the inventory and agents' accounts.

Question 407

(a) In auditing the accounts of a steam railroad company what procedure would you adopt to verify the equipment account, and also the specific liabilities for equipment?

(b) State the requirements of the Interstate Commerce Commission relative to depreciation in railroad accounts.

Question 408

Devise a timekeeping system for a concern employing mechanics, helper in machine shop, moulders, pattern-makers, helpers in pattern shop, yard laborers, etc., and give your reasons in full.

Question 409

"A" and "B" are partners, carrying on a business in Winnipeg. On January 1, 1910, after adding profits for the past half year, "A's" capital amounted to \$150,000 and

"B's" to \$100,000. On that date they take into partnership "C," upon the following terms, viz.: he is to bring in capital amounting to \$25,000, and each partner is to be credited with interest on his capital at 6% per annum. All profits in excess of \$25,000 are to be shared equally by the three partners. Accounts are to be prepared and profits and interest credited half-yearly. "C" is to be credited with a salary of \$5,000 per annum. On June 30, 1910, the profits divisible after debiting "C's" salary, which he has drawn, but before charging interest on partners' capital, amounted to \$75,000. The partners' withdrawals which are not chargeable with interest were: "A," \$12,500; "B," \$10,000; and "C," \$3,750. Draw up partners' separate accounts as they should stand on July 1, 1910.

Assume that instead of a profit, a loss of \$75,000 had occurred. How would you have treated it in the accounts in the absence of any direct provision in the partnership agreement relative to losses?

MARYLAND

Question 410

A chemical manufacturing company which had paid \$90,000 for six patents of equal value, sold one of these patents during the first year of its existence and received in payment 5,000 fully paid shares (par \$10) in a subsidiary company formed for the purpose of working the patent.

In the second year the chemical company sold the 5,000 shares of stock to the subsidiary company for \$25,000 cash.

How would you, as auditor, expect the 5,000 shares, or proceeds of them, to be treated in the accounts of the chemical manufacturing company at the end of the first and second years, respectively?

WASHINGTON

Question 411

State briefly your duties as an auditor in reference to the following matters:

- (a) Machinery the value of which has not been regularly depreciated
- (b) Loans from bankers
- (c) Doubtful debts
- (d) Good-will

Question 412

How would you, as auditor of an incorporated company, satisfy yourself of the existence of shares or bonds given as security for loans to the company?

Question 413

A firm of export merchants desires a thorough investigation of the past year's transactions, having reason to suspect fraud. State concisely upon what lines you would proceed to satisfy yourself that:

- (a) Goods had been taken out of the store on bond in the way shown by the books.
- (b) They had been shipped to account of proper consignee.
- (c) That no goods had been removed without being charged.
- (d) That no fictitious entries had been made in the books.

Question 414

The following is the trial balance of the Blank Manufacturing Company as taken from its books at December 31, 1912, the accounts being arranged in the alphabetical order shown by reason of their having been taken from the alphabetically indexed loose-leaf ledger of the company:

TRIAL BALANCE

	Dr.	Cr.
Accounts payable.....		\$190,500.00
Accounts receivable.....	\$369,926.00	
Accrued salaries and wages.....		1,608.00
Advertising	12,961.00	
Bad debts written off.....	3,107.00	
Bills payable.....		58,000.00
Bills receivable.....	14,000.00	
Bond discount (to be written off during life of bonds).....	12,667.00	
Bond interest payable.....		4,166.50
Capital stock—common.....		750,000.00
Capital stock—preferred.....		320,000.00
Cash in bank and on hand.....	58,828.50	
Credit department expenses.....	1,973.50	
Depreciation of buildings.....	545.00	
Depreciation of machinery and equip- ment	2,232.00	
Depreciation of office equipment.....	700.00	
Depreciation of workmen's cottages...	1,800.00	
Directors' fees.....	600.00	
Discount on bonds charged off.....	506.50	
Discount on purchases.....		7,608.50
Discount on sales.....	8,937.00	
Federal corporation tax.....	1,538.00	
First mortgage 5% 30-year gold bonds (dated May 1, 1908).....		500,000.00
Freight and cartage inward.....	4,381.00	
Freight and cartage outward.....	3,431.00	
General office expenses.....	1,771.50	
Good-will	250,000.00	
Insurance	3,115.00	
Insurance premiums unexpired.....	1,811.00	

TRIAL BALANCE (*Continued*)

Interest on bills payable.....	10,075.00	
Interest on bonds.....	29,166.50	
Income from investments.....		30,752.50
Inventory raw materials, 12/31/11 (cost)	122,686.00	
Inventory estimated goods in process, 12/31/11 (cost).....	43,211.00	
Inventory manufactured goods, 12/31/11 (cost)	222,930.00	
Inventory raw materials, 12/31/12 (cost)	115,812.00	
Inventory manufactured goods, 12/31/12 (cost)	256,609.00	
Inventory estimated goods in process, 12/31/12 (cost).....	39,220.00	
Inventory fuel, factory supplies, etc., 12/31/12 (cost).....	20,031.50	
Inventory raw materials, 12/31/12 (cost)		115,812.00
Inventory estimated goods in process, 12/31/12 (cost).....		39,220.00
Inventory manufactured goods, 12/31/12 (cost)		256,609.00
Maintenance of buildings.....	2,273.00	
Maintenance of machinery and equip- ment	3,321.50	
Maintenance of workmen's cottages...	1,760.00	
Manufacturing power, heat and light...	7,461.00	
Miscellaneous factory expenses.....	2,240.00	
Miscellaneous selling expenses.....	2,881.00	
Non-productive labor.....	17,931.00	
Office equipment.....	14,000.00	
Office salaries.....	4,875.00	
Officers' salaries and expenses.....	12,092.00	
Organization expenses.....	8,940.00	
Organization expenses written off.....	928.00	
Patent rights.....	28,637.00	
Patent rights written off.....	1,981.00	
Patterns and drawings (appraised value)	19,000.00	
Patterns and drawings written off.....	321.50	
Plant site (cost).....	120,000.00	
Plant buildings (cost).....	218,000.00	
Plant machinery and equipment (cost).	316,817.00	
Productive labor.....	210,642.50	
Purchasing department expenses.....	2,836.00	
Raw materials purchased.....	468,212.00	

TRIAL BALANCE (*Continued*)

Rent of workmen's cottages.....		7,300.00
Reserve for depreciation of buildings...		21,635.00
Reserve for depreciation of machinery and equipment.....		57,351.00
Reserve for depreciation of office equip- ment		3,100.00
Reserve for depreciation of workmen's cottages		18,140.00
Reserve for doubtful accounts.....		2,608.00
Returns and allowances on purchases..		1,931.00
Returns and allowances on sales.....	2,377.00	
Sales of manufactured products.....		874,160.50
Sales of waste materials.....		1,064.50
Sales agents' commissions.....	4,922.00	
Salesmen's expenses.....	3,632.50	
Salesmen's salaries.....	9,250.00	
Sinking fund investments.....	26,077.00	
Stock of subsidiary and allied corpora- tions (cost).....	343,500.00	
Surplus		272,237.50
Taxes on plant and equipment.....	10,181.00	
Taxes payable.....		3,857.00
Workmen's cottages (cost).....	58,000.00	
	<hr/>	<hr/>
	\$3,537,661.00	\$3,537,661.00

You have audited the books of the company for the year 1912, and during your examination the following matters have come to your attention:

(1) You have ascertained from the minute book of the company that the following semiannual dividends were declared on December 31, 1912, which, however, were not payable until January 15, 1913:

3% on preferred stock.....	\$ 9,600.00
3% on common stock.....	22,500.00

A similar dividend was declared on June 30, 1912, and paid on July 15, 1912.

(2) You have found that there were outstanding lia-

bilities at December 31, 1911, which had not been taken into account in closing the books at that date, such items being paid in the year 1912, viz.:

Productive labor.....	\$1,752.50	
Non-productive labor.....	614.00	
Manufacturing power, heat and light.....	214.00	
General office expenses.....	115.00	
Office salaries.....	110.00	
Taxes for year 1911.....	6,324.00	
Interest on bonds.....	4,166.50	
Interest on bills payable.....	975.00	\$14,271.00
		<hr/>

(3) You have found that the following expense items paid in advance at December 31, 1911, were not taken into account in closing the books at that date, viz.:

Insurance premiums unexpired.....	\$1,609.00
Interest prepaid on bills payable....	2,438.00
	<hr/>
	\$4,047.00

(4) You have discovered errors in the extensions and prices of the inventories at December 31, 1911, as follows:

Raw materials—To be increased....	\$1,921.00
Goods in progress—To be decreased..	595.00
Finished goods—To be decreased...	1,054.00

(5) Having examined the accounts receivable ledgers carefully, you are of the opinion that the reserve for bad and doubtful accounts of \$2,608 is insufficient, and having discussed the matter with the management of the company it is desired to increase the reserve to \$5,000, \$1,500 of the increase to be considered as applying prior to December 31, 1911, and the balance to the year 1912.

(6) After an examination of the plant and equipment accounts, you are satisfied that the additions charged during the year are proper capital expenditures, the amounts of these additions being as follows:

Plant buildings	\$ 9,000.00
Plant machinery and equipment....	11,817.00
Office equipment	1,500.00

In your opinion the depreciation provisions during the year have been insufficient, although you are of the opinion that the provisions to December 31, 1911, were adequate. You should increase the depreciation charges for the year to the following rates:

- 21½% on the ledger balance of Plant Buildings account at December 31, 1911.
- 7½% on the ledger balance of the Plant Machinery and Equipment account at December 31, 1911.
- 10% on the ledger balance of Office Equipment account at December 31, 1911.

(7) Errors in the prices and extensions of the inventories at December 31, 1912, have been discovered, and changes should be made as follows:

Manufactured goods—To be increased.....	\$2,712.00
Goods in progress—To be decreased..	375.00
Raw materials—To be decreased....	9,225.00

(8) No provision has been made for the interest accrued at December 31, 1912, on bills payable, the same amounting to \$2,925.50.

(9) You have learned that bills receivable formerly held by the company, not yet due, amounting to \$10,000, had been discounted at December 31, 1912.

(10) While no change is to be made in the proportions of organization expenses and patent rights written off during the year and the Good-Will account is to be left at the trial balance figure, an adjustment in connection with the Bond Discount account is considered necessary. While the sum of \$506.50 written off during the year is the proper yearly proportion necessary to extinguish the bond discount during the life of the bonds, clerical errors have been made in prior years, and the proportion of bond discount shown in the trial balance, viz. : \$12,667, is therefore incorrect and should be changed to the proper amount.

(11) The amount shown for taxes payable at December 31, 1912, is but one-half of the amount of taxes assessed for the year 1912.

(12) All of the authorized issue of common stock was outstanding, but while only \$320,000 of the 6% cumulative preferred stock was outstanding at December 31, 1912, you have ascertained that the authorized issue of the same was \$750,000.

Make the necessary adjusting journal entries to properly state the financial position of the company at December 31, 1912, and the profit and loss account for the year.

Prepare summary showing cost of goods sold to be carried to the profit and loss account as a single item.

Prepare profit and loss account, grouping the expenses other than those applying to the cost of goods sold, under selling expenses, general and administrative expenses, etc.

Prepare balance sheet.

Show percentage of gross profit on net sales and percentage of gross profit on cost of goods sold.

NOTE: In submitting your answers to this problem use all of the separate accounts shown and do not combine items of a similar nature in preparing either the balance sheet or the profit and loss statements.

Question 415

The directors of a mining corporation, of which you are auditor, decline to provide what you consider an adequate depreciation of wasting assets. What attitude would you assume in these circumstances?

Question 416

Discuss generally the duty of an auditor in relation to the question of depreciation, and illustrate your argument by dealing with such items as:

- Lands and buildings
- Lease of coal mines
- Good-will
- Outside investments of fluctuating value

Question 417

Do you consider it necessary, and, if so, why, for an auditor of a corporation to peruse the minutes of directors' and shareholders' meetings?

Question 418

A lumber mill, owing to slack business, stops manufacturing, but not selling. During the period of shut down the mill is almost entirely rebuilt; the old machinery thoroughly overhauled; new and additional machinery added, and an entire and more efficient arrangement of the entire plant had. During the previous six years the book value of the plant had been reduced by the following depreciations:

- On buildings, 10% per annum on original cost.
- On machinery, 6% per annum on original cost.

You as auditor for the company are asked to advise to what accounts the cost of rebuilding, of overhauling, and of the additions are to be charged.

Give your answer, stating fully your reasons.

Also advise as to when, in your opinion, depreciation should be taken into consideration on the rearranged plant if active operations are not resumed for six months after the completion of the changes.

Question 419

(a) In auditing the accounts of a steamship company operating freight and passenger steamers and doing a coast-wise as well as a foreign trade, how would you verify:

- (1) The passenger earnings?
- (2) The freight earnings?
- (3) Other earnings?

(b) State what earnings other than from passengers and freight a steamship company may have.

(c) A steamship company operating steamers upon inland rivers where the fuel used is cord wood, considers the fuel cost per trip as shown by the trip statements too high and they suspect fraud. You as auditor are asked to make an investigation. State what your procedure would be.

Question 420

The Gendron Corporation operate coal mines, saw-mills, a logging railroad and have their own timber holdings.

All of the accounts are kept in one large ledger, with the usual books of original entry, at the general office in New York. They engage the services of yourself to audit the books for the year ending June 30, 1909. The following is a copy of the trial balance.

GENDRON CORPORATION

TRIAL BALANCE—JUNE 30, 1909.

Plant equipment—Mine A.....	\$31,955.26	
New plant—Mine 7.....	62,173.27	
Stumpage, cut for sawmill.....	7,524.26	
Capital stock.....		\$581,500.00
Betterment to Mines 3 and 4.....	2,783.42	
Local purchase logs.....	51.66	
Sawmill repairs.....	1,360.31	
Cash	7,436.05	
Development—Mine No. 1.....	3,822.37	
Timber and land.....	240,305.26	
Planing mill repairs.....	341.43	
Accounts receivable.....	76,421.91	
Mine engineering tools—Mine 1.....	225.00	
Petty cash—mines.....	750.00	
Lumber—outside purchases.....	79.20	
Lighterage on lumber.....	57.95	
Mine administrative salaries and supplies	2,195.22	
Petty expenses at mines.....	1,649.28	
Tenant houses at mines.....	2,117.22	
Lumber, logs, etc., on hand.....	50,853.60	
Sawmill pay-roll.....	4,141.41	
Planing mill pay-roll.....	2,421.95	
Commissary purchases—lumber.....	8,642.58	
Feed and labor—mine stables.....	925.75	
Electrical repairs at mine.....	467.97	
Commissary pay-roll—lumber.....	726.65	
Logging pay-roll.....	200.00	
Unexpired insurance premiums.....	3,918.49	
Mine cars.....	6,139.78	
Lath mill pay-roll.....	249.65	
Electrical plant—mine.....	3,190.00	
Interest on loans covering mine plant construction	7,226.73	
Mines warehouse—stock on hand.....	1,743.22	
Lath mill repairs.....	7.27	
Railroad equipment.....	74,710.38	
Railroad pay-roll and expenses.....	2,241.86	
Camp equipment.....	22,192.34	
Camp pay-roll.....	1,549.75	
Yard and shed repairs.....	112.10	
Logging railroad track.....	47,769.13	

TRIAL BALANCE (*Continued*)

Office salaries—lumber.....	1,021.67	
Unclaimed miners' wages.....		246.17
Coal sales.....		57,280.78
Building material on hand at mine.....	810.75	
Interest on funds to develop Mine No. 1	240.00	
Mine office furniture and fixtures.....	1,459.17	
Mine officer's house furnishings.....	513.29	
Mine railroad track and switches.....	3,916.82	
Telephone line—mill to woods.....	436.56	
Freight on logs to sawmill.....	1,614.40	
Camp boarding house equipment.....	1,500.00	
Interest and discount—lumber.....	422.09	
Mine store expense and labor.....	2,472.83	
Mine store freight.....	472.98	
Sawmill machine shop.....	2,328.53	
Outside investment.....	1,949.90	
Advanced to new coal corporation.....	1,373.27	
Mill plant.....	324,982.92	
Lumber sales.....		28,033.11
Lath and shingle sales.....		2,392.45
Insurance—mill	85.30	
Operation Chicago office—lumber.....	1,000.00	
Allowances and discounts—coal ship- ments.....	637.40	
Repairs and expenses—mine stables.....	124.22	
Mine office—salaries and supplies.....	1,562.23	
Mine eng.—salaries and supplies—Mine No. 1.....	625.00	
Traveling expenses—mine manager.....	221.67	
Interest—current loans at mine.....	125.00	
General office expenses—lumber.....	853.80	
Discount on lumber sold.....	1,931.60	
Bills payable.....		172,667.50
Accounts payable—audited.....		24,287.03
Bonds on timber lands.....		35,000.00
Taxes—mines	178.53	
Insurance—mines	1,271.11	
Legal expense—mines.....	785.00	
Royalty on coal mined.....	4,989.77	
Mining labor.....	29,871.23	
Surplus		195,764.45
Sales of wood.....		186.00

TRIAL BALANCE (*Continued*)

Rent of dwellings and miscellaneous income—lumber		278.00
Yard filling and tunnel extensions at mines	2,743.22	
Delivery of coal to tipple.....	3,571.28	
Maintenance of way—mines.....	710.11	
Maintenance of air—mines.....	739.10	
Props, ties, and caps.....	497.17	
Mine foreman—salary.....	800.00	
Maintenance of mine cars.....	209.38	
Mine machinists' and engineers' wages..	1,378.78	
Smithing—mines	672.10	
Fuel—mine power house.....	297.51	
Removal of slate.....	551.98	
Deadwork at mines.....	47.21	
Electrical supplies at mines.....	2,488.55	
Insurance during construction of mine plant	937.97	
Norfolk & Western Ry. claims at mines	71.59	
Repairs to miners' houses.....	171.19	
Legal expense—in re right of way to mines	342.68	
Live stock at mine.....	3,850.00	
Taxes during construction of mine plant	313.71	
Mine commissary purchases.....	8,427.60	
Rental from miners' houses.....		1,572.27
Cartage and sale of coal to tenants.....		70.09
	<hr/>	<hr/>
	\$1,099,277.85	\$1,099,277.85

They have agreed to a plan whereby the coal mine operations will be taken over by a new corporation and therefore ask that you separate the lumber and coal accounts, and make up a separate set of statements in detail to cover each business (balance sheet, surplus account, profit and loss account and statement of operations); the capital stock to stand as part of the lumber accounts.

You find as follows :

(1) Bills Receivable account was balanced and closed, but among the records and papers of the company, you found bills receivable for lumber accounts amounting to \$2,791.17 previously charged off, but now considered good and collectible.

(2) Mine No. 1 is in a state of development and has not been as yet operated.

(3) Of the accounts receivable, \$15,180.92 cover coal shipments.

(4) Of the bills payable, \$50,725.00 cover mine investments.

(5) Unexpired insurance premiums include \$726.10 on mine policies paid for account of the new corporation.

(6) Taxes paid in advance, \$78.53 on mine properties.

(7) Of the surplus before closing the accounts, \$98,958.44 arises from mine operations prior to the year ending June 30, 1909.

(8) Of the accounts payable, \$12,790.79 cover mine bills audited.

Show the necessary journal entries to adjust the accounts in accordance with the foregoing explanations.

The Black Diamond Fuel Co. secures a charter and capitalizes with an authorized issue of \$250,000 common stock and \$200,000 of preferred stock. The common stock is subscribed for as follows :

The Gendron Corporation.....	\$150,000.00
W. Wilson.....	50,000.00
A. Smith.....	50,000.00

on the following terms :

(a) The Gendron Corporation to transfer all assets and liabilities as shown by your statement covering the mines

property to the Black Diamond Fuel Co. Any equity to apply as part payment on the subscription, balance to be paid on call.

(b) Wilson and Smith each pay \$25,000 in cash, balance on call.

Show the proper entries:

- (1) To make the transfer on the books of the Gendron Corporation, and
- (2) Entries to open books of Black Diamond Fuel Co. and balance sheet after so doing.

The Potlatch Lumber Mfg. Co. is incorporated for \$1,500,000, of which the Gendron Corporation subscribed for 25%, the Block Lumber Co., 50%, and the Columbia River Lumber Co., 25%. The Potlatch Co. agreed to take over the lumber business of each of the three concerns named. It is understood that balances due to the contributing companies on purchase account are to be applied as part payment of their stock subscription.

(a) The Gendron Corporation agrees to dispose of its plant for \$250,000, reserving its timber holdings; railroads and other equipment; amount due from Black Diamond Fuel Co. on account of mining department advances, and \$8,000 of accounts receivable not considered collectible. Also, it assumes all liabilities except accounts payable.

(b) The other companies submit the following balance sheets:

BLOCK LUMBER CO.

BALANCE SHEET

Cash on hand and in bank.....	\$6,410.81	
Bills receivable.....	2,131.55	
Bills payable.....		\$77,191.94
Lumber, logs, etc.....	52,176.59	
Unexpired insurance premiums.....	1,317.58	

BALANCE SHEET (*Continued*)

Mill supplies and extras.....	819.26	
Teams	2,859.65	
Standing timber and lands.....	300,000.00	
Accounts payable.....		15,197.94
Surplus		401,321.76
Mill plant.....	60,500.00	
Accounts receivable.....	67,496.20	
	<hr/>	<hr/>
	\$493,711.64	\$493,711.64

COLUMBIA RIVER LUMBER CO.

BALANCE SHEET

Cash	\$438.72	
Bills receivable.....	6,008.91	
Lumber, logs, etc.....	97,303.43	
Unexpired insurance premiums....	417.93	
Mill supplies, etc.....	742.59	
Teams	62.50	
Bills payable.....		\$39,604.38
Standing timber and lands.....	42,811.83	
Tug boat.....	2,019.39	
Outside investments.....	6,300.00	
Mill plant.....	30,000.00	
Accounts payable.....		7,912.84
Surplus		172,093.42
Accounts receivable.....	33,505.34	
	<hr/>	<hr/>
	\$219,610.64	\$219,610.64

(1) Draft opening entries for the Potlatch Lumber Mfg. Co.

(2) Prepare balance sheet after books have been opened.

(3) Draft closing entries for the Gendron Corporation.

(4) Prepare general balance sheet of the Gendron Corporation after so doing.

ILLINOIS

Question 421

What is the best method for carrying additions to plant on the books of a manufacturing corporation? Give reason for answer.

Question 422

What is the auditor's responsibility in the matter of vouchers for payment? What is his responsibility where there are not any regular vouchers?

Question 423

Can an examining accountant satisfy himself of the general correctness of inventories without himself taking the quantities and verifying the prices, extensions, and additions? Give full particulars.

Question 424

Where the books of a copartnership or corporation show large additions to buildings and machinery, consisting of portions of pay-rolls, without explanation, what means should be taken to prove or disprove the accuracy of the charges?

Question 425

State whether depreciation is an element of the cost of manufactured products. If so, why?

Explain form of journal entry necessary to carry depreciation on the books, and explain how it would be shown on the balance sheet.

Question 426

In auditing the accounts of a railroad company, what is necessary to determine whether the equipment has been fully maintained?

Question 427

Are working or job orders, covering a company's expenditures on its own account, of any value to the auditor when examining the general books?

Question 428

In auditing the books of a business which is to be disposed of and where the seller guarantees to the purchaser the open accounts receivable, what action, if any, should be taken by the auditor as to such accounts receivable?

Question 429

After the organization of a corporation, it proceeds to construct a manufacturing plant, paying for the same in cash realized from the sale of capital stock at 80 cents on the dollar. When ready for operation, what items would be included in the cost of such a plant?

Question 430

You are auditing the annual accounts of a company, which possesses amongst other assets a leasehold warehouse, the lease of which has still another forty years to run from the date of the last balance sheet, at which time

it stood on their books at \$100,000, and this amount still remains unchanged. The lease was acquired ten years ago on the formation of the company and is considered to have a realizable value of about \$150,000. The outlay has been incurred as to \$50,000 by rebuilding two years ago, since which time nothing has been written off. No systematic treatment of the subject has been adopted, but considerable sums have been written off from time to time out of the profits earned in the previous years. Dividends are only payable out of the profits of the company. As auditor of the company you are asked to decide between the following views:

(a) Nothing need be written off at all, because the property would now sell for what it stands at or more.

(b) The most convenient plan is to continue applying occasionally such profits as it is not desired to distribute in dividends.

(c) An equal 40th part should be written off annually.

(d) A sinking fund should be created and compounded so as to produce \$100,000 in forty years.

Criticize each of the above plans, stating which you recommend, if any, and why.

Question 431

You are appointed the auditor of an estate the assets of which consist of real estate (improved city and farm lands), corporation stocks (common and preferred), railroad bonds (with coupons attached and without coupons attached), and first mortgages on farm property. How will you verify the revenues from the various classes of assets, and what procedure would you take to verify the existence of these assets? In your first audit what would be the first two things you would examine?

Question 432

An investigation of the details of an inventory dated January 1, 1904, brings to light the following entry:

Contract dated July 1, 1903, for delivery of 20,000 tons of between January 1st and June 30th, 1904, at \$25.00 per ton, the market price at date of inventory being \$27.50 — \$50,000.00.

Discuss the validity of the above entry under the following circumstances:

- (a) In the preparation of a certified balance sheet for stockholders' meetings.
- (b) In investigation on behalf of a client who is considering the purchase of the majority of the capital stock of the company.
- (c) In investigation and preparation of certified balance sheet for the company (the company being your clients) which they desire to submit to their bankers.

Question 433

A corporation has a capital stock of \$100,000. It has assets at inventory value amounting to \$160,000. With a view to reducing the number of its enterprises, it sells two of its stores for \$85,000 at inventory value. This \$85,000 is distributed among its stockholders. What entries should be made upon the books, and what procedure would you recommend in order to safeguard all interests in making such distribution?

Question 434

A company incorporated with a capital of \$200,000, fully paid up, has sold its stock at a premium of 25%, thus

realizing in cash \$250,000. The by-laws, which cannot be amended except in a stockholders' meeting and after proper notice of such amendment, having been mailed to each stockholder ten days prior to the meeting, contain a provision that the \$50,000 so received over and above the capital stock at par, shall be placed to the credit of a special reserve account, and that this fund shall not be applicable towards the payment of dividends. At the close of the first fiscal year, it is found that the company has made a net profit of \$4,000 after charging \$6,000 for depreciation on the buildings and machinery. The directors desire to pay a cash dividend of 5% and pass a resolution ordering that the depreciation referred to above shall be charged against the above special reserve account instead of against profit and loss, and they then proceed to declare a dividend of 5%. Discuss the above situation from the standpoint of an accountant.

Question 435

While auditing the accounts of a jobbing firm, the cashier and bookkeeper disappears. The client believes he has been guilty of embezzlement, and asks the auditor to report as quickly as possible to him, what sum, if any, has been taken. The auditor tests postings of cash from customers without finding irregularity, and also finds that receipts have been taken and are on file, for all moneys actually paid. Where would you look under such circumstances for the method pursued by the probable embezzler in covering a shortage?

Question 436

Give method of preparing a balance sheet where ledgers have not been closed.

Question 437

In the case of a consolidation of three manufacturing concerns, how would you determine the good-will of the consolidated company?

Question 438

When auditing the accounts of a wholesale grocery house it is found that a fire has just destroyed the entire stock of merchandise. What course would you follow to approximate the inventory?

Question 439

At the first annual audit of the books and accounts of an electric street railway company the books show an actual investment exceeding \$1,000,000, while the aggregate amount of repairs and renewals for the year have been but \$10,000. What course should the auditor follow in preparing profit and loss account for the year?

Question 440

Criticize the following profit and loss account and balance sheet of a private firm trading in provisions, from the point of view of a bank which contemplates advancing \$20,000 to firm. The clerical accuracy of the books has been verified.

PROFIT AND LOSS ACCOUNT
(Year Ending December 31st, 1905)

Stock at 1-1-5.....	\$50,000.00
Purchases	40,000.00
Wages and salaries.....	8,000.00
Office and general expenses.....	7,000.00
etc.*	15,000.00

*Rather unusual, but according to copy.

PROFIT AND LOSS ACCOUNT (*Continued*)

Interest on loans.....	2,700.00
Bad debts.....	800.00
Profit	37,000.00
	<hr/>
	\$160,500.00
	<hr/>
Sales, less returns.....	\$80,000.00
Stock 31-12-5.....	75,000.00
Dividends on investment.....	5,500.00
	<hr/>
	\$160,500.00
	<hr/>

BALANCE SHEET.

ASSETS

Book debts.....	\$250,000.00
Stock as per inventory.....	75,000.00
Investments at cost.....	50,000.00
Good-will	10,000.00
Lease on premises.....	5,000.00
Furniture, etc.....	1,000.00
Cash in hand.....	500.00
	<hr/>
	\$391,500.00
	<hr/>

LIABILITIES

Trade creditors.....	\$344,500.00
Loans	27,000.00
Partners' capital account at 1-1-5.....	\$8,000.00
Profit for year.....	37,000.00
	<hr/>
	\$45,000.00
Less: Drawings during year.....	25,000.00
	<hr/>
	\$391,500.00
	<hr/>

Question 441

Before certifying a balance sheet what steps should an auditor take to satisfy himself of the accuracy of the valuation placed upon the following assets:

- (a) Stock in trade
- (b) Investments
- (c) Plant and machinery
- (d) Cash in hand at branch establishments
- (e) Patent rights
- (f) Patterns

Question 442

It is contended that it is unnecessary to write off depreciation on :

- (a) Freehold premises
- (b) Plant and machinery

provided that they are maintained in a full state of efficiency out of revenue.

Give briefly your own views on this subject.

Question 443

A corporation issues bonds, proceeds to be used for construction purposes. If bonds are all sold at a discount, to what account should the discount be charged? If sold at a premium, to what account should the premium be credited?

Question 444

In a public utility proposition, how does the auditor best determine the reliability of the revenue?

In passing upon discounts and bad debts, how would you state them in reports?

Question 445

Finance corporations holding a large number of shares in other corporations are in the habit of valuing their

securities for balance sheet purposes at either (a) cost price, or (b) market price at the date of the balance sheet.

Discuss the respective merits of the two methods and say which you consider the soundest from an accountant's point of view.

Question 446

You are called upon to audit the books of a "holding company," owning 90% of the stocks of six large manufacturing companies scattered over the United States. From the books of the "holding company" you are requested to prepare a certified balance sheet and profit and loss account, it being stated that it is not to be used for publication, but will be mailed to one of the shareholders who appears to be disgruntled. Balance sheets and profit and loss accounts of the subsidiary companies signed by their respective secretaries, are produced for your inspection but you are refused access to the actual books of account of these companies. Explain fully what your course of action would be in this matter and your reasons therefor.

Question 447

You are called upon to audit the books of account of the executors and trustees of an estate. The executors completed their duties 18 months after the death of decedent. Explain the essential features of an audit of this character.

Question 448

A construction company is carrying out work on a number of contracts. At the close of its fiscal year, these contracts are in all stages of completion, from those which are just begun to those which are almost finished. How should you compute their value as an asset in the balance sheet?

Question 449

In determining the result of the operations of a company whose business requires the use of a large number of tools and implements, what general rule would you consider?

Question 450

In presenting a balance sheet, what items are matter of fact and what items are opinions, and, taken as a whole, are you establishing a fact or an opinion?

Question 451

Can, or cannot, a going concern, employing a salaried manager and superintendents, charge any part of their salaries to cost of improvements or extensions that may be added to the plant at intervals? In either view, why?

Question 452

You are elected the auditor of a corporation by the holders of both common and preferred stock and it is your duty to safeguard the interests of both classes of stockholders. The preference stock bears 7% and is non-cumulative. Mention what precautions you would adopt to safeguard the interests of the preference shareholders, giving reasons therefor.

Question 453

A club obtaining its revenue from initiation fees, dues, restaurant, wines, cigars, billiards, and cards, has a treasurer who reads to the directors at each monthly meeting, a statement of the receipts and disbursements of the month just prior. What are the advantages of such a statement and wherein does it fall short?

Question 454

Referring to the preceding question state how you would handle initiation fees in the preparation of the club's annual report containing balance sheet and profit and loss, and give your reasons therefor.

Question 455

The firm of Catchem and Cheatam engage in a restaurant business where all sales are for cash, with the express purpose of at a later date selling out same on the strength of the large profits shown on the books. With the object in view they grossly pad their sales every day and make compensating fraudulent entries on the disbursement side of the cash book purporting to represent cash withdrawals of partners, and all records by which the cash sales might possibly be verified are destroyed. Catchem and Cheatam make a proposition to Mr. A. to sell their business to him and, on the showing of profits made by the books, Mr. A. seriously considers the same, but engages a certified public accountant to make an examination. The accountant fortunately discovers the fraud. How did he probably discover the fraud and what was his method of procedure?

Question 456

The audit of a corporation on the instructions of its president, reveals the following condition:

ASSETS

Real estate, plant and machinery..	\$500,000.00
Merchandise of all kinds.....	200,000.00
Bills receivable.....	50,000.00
Accounts receivable.....	275,000.00
Sundries accrued.....	4,500.00
Cash	37,500.00

\$1,067,000.00

LESS LIABILITIES

Bills payable.....	\$250,000.00	
Accounts payable.....	40,000.00	
		<hr/>
		290,000.00
		<hr/>
Net resources.....	\$777,000.00	

The capital of the corporation is \$1,000,000 with deficit of \$223,000. The audit brings out the fact that included in the accounts receivable is an item of approximately \$50,000 due by the president of the company. In certifying to the balance sheet the president requests you not to show as a separate item the amount due by him, but to include it as shown above in the accounts receivable for the reason, you are informed, that your certificate is to be used for the purpose of selling \$250,000 bonds secured by mortgage on the real estate, plant, and machinery, the proceeds of which will be used to liquidate the present bills payable. The president of the company is reported to be worth \$200,000 over and above the value of his stock in the above company. What course of action would you take? State the reasons therefor. If the certificate was stated to be for the purpose of handing certified balance sheet to their bankers or to present to annual meeting of shareholders, then what would be your course of action, and why?

Question 457

The senior member of a firm of certified public accountants employing about fifty assistants, having arrived at an age when he no longer cares to be actively engaged, retires; but the partnership agreement provides that he shall still retain a one-fourth interest in the profits on account of the good-will attached to his name. Three years after he has ceased to be actively engaged in the business, the profits

drop considerably, and fearing that his partners are not acting squarely he proceeds to audit the accounts of the firm. If you were in his place how would you proceed to audit same and satisfy yourself that everything was properly accounted for or otherwise?

Question 458

An auditor is engaged by a man who is buying an interest in a firm, for the purpose of reporting upon the assets and liabilities of the firm as at a given date and upon the profits of the three years just prior. Upon the auditor's report he purchased an interest in the firm and in its assets and liabilities. Six months later it is discovered that there were bills payable due by the firm amounting to \$10,000 at the time the auditor made his examination and not reported upon by him, and that these bills had continuously been due by the firm for one year prior to such examination, but no record of same had been made upon the books. Under what circumstances could the auditor be considered guilty of negligence in not discovering this fact and under what circumstances could he be considered entirely free of any blame in the matter?

Question 459

An auditor is called upon to verify a balance sheet, and upon investigation he finds that unexpired insurance, interest paid in advance on discounted notes, taxes accrued, interest accrued on demand notes and bonded indebtedness, royalties, etc., are not included in same. He is informed that it has not been the custom of the corporation to include in their balance sheet such items, as they offset one another, and that the directors do not desire any change in the practice they have adopted. Discuss this proposition, stating reasons for your conclusions.

Question 460

In the examination of the accounts of a brewery, how would you determine whether the amount of beer produced and disposed of during the year was in proper relation to the conditions disclosed by final inventories?

Question 461

An interurban railway company, wishing to provide against possible accidents, adopted the plan of depositing 2% of their gross receipts each month in a local savings bank as a reserve for that purpose, charging the funds so set aside to an account which they designated "Reserve for Accidents." The total fund for the year amounted to \$4,869.26, out of which they paid \$950 for accidents occurring and settled during the twelve months, debiting such payment to Accident account, and leaving a cash balance in the bank on December 31, of \$3,919.26.

The bookkeeper endeavored to close the books by showing the \$4,869.26 as a charge against operating for the year arising out of accident liability, carrying over the balance in bank (\$3,919.26) to provide for future accidents, and making a corresponding credit to the "Reserve for Accidents" account. This left the company with cash assets of \$3,919.26 not represented on the books.

Wherein did the bookkeeper err and what entries should have been made to show the transaction correctly?

Question 462

In making an audit of a large bank where many of the bills discounted are in the form of demand notes upon which partial payments of principal and interest are permitted to be made, and where in many instances the customer, as he hands in his check, does not wait to see an

indorsement of the payment actually made at the time by the bank employee, how would you assure yourself that none of the entries covering such partial payments were held over until the next day, while the check or currency might be slipped into the teller's cash?

Question 463

In the examination of the accounts of an important railroad, it appears that none of the invoices and material purchased appear on the company's books until they have been approved by the purchasing agent and division superintendents, although the various storekeepers' reports show that much of the material and supplies has actually been received.

How would you proceed to determine the liability of the mine the real position of the railroad with respect to purchases not taken up on the voucher register?

Question 464

In examining the affairs of a private country bank, it is ascertained that no record of certificates of deposit has been kept except in the general ledger. It also appears that partial payments have been occasionally made on certain certificates which are still in the hands of the depositor.

How would you proceed to determine the liability of the bank with respect to certificates of deposit outstanding?

Question 465

Assuming that all cash discounts on purchases made during the year have been taken advantage of, and the ledger account shows a substantial credit, to what account would you close the balance? In the case of a jobbing concern? Of a manufacturer?

Question 466

In the case of a street railway which allows its conductors to sell tickets covering transportation for ten and twenty-five rides at a lower rate than it demands for cash fares, how would you apportion the revenue so received, bearing in mind that at the end of each month many tickets remain unredeemed.

Question 467

In a large country store containing several departments considerable produce is taken in the grocery section from farmers and others, for which trading orders are issued redeemable in merchandise only through the other departments. How would you determine the profit or loss in each department?

Question 468

A trading and mining company maintains five general stores at each of five separate stations, and concentrates its supplies each year at Station A, which is the only one accessible by railway, and distribution is made from thence by means of wagon and pack trains. The cost of goods laid down at Station A is 10% above invoice prices at the company's general office in Montana; and the agent at Station A is instructed to rebill all shipments to Station B at 20% above original invoice cost; to Station C at 35%; to Station D at 40%, and to Station E at 50%, the experience of several years bearing out the general manager's statement that such additions are approximately correct and cover actual cost of transportation.

In auditing the accounts for the purpose of certifying the annual balance sheet, you ascertain that certain goods at Station D amounting to \$10,000, are inventoried by the agent at that point at 70% above the original invoices

which you have examined at the home office. He states that Station E, being overstocked, shipped him several lots of merchandise at price billed out to E by Station A, plus 10% for estimated cost of handling and repacking at E; and to this D legitimately added 10% for cost of transportation from E back to D.

In your visit to other stations you find many similar instances where goods have been moved back and forth and each time the shipping station has added 10% for handling and repacking.

Out of a total inventory at all stations of goods originally costing \$200,000, the summary shows final extensions of values aggregating \$325,000, of which not more than \$75,000 is covered by cost of transportation, leaving some \$50,000 represented by internal charges added between the different stations.

Review the foregoing statement and give your method of handling such accounts.

Question 469

In making an audit of the accounts of a corporation, would you consider it part of your duty to verify the transfers of the certificates of capital stock occurring during the period covered by your examination?

Question 470

In financing a manufacturing company, it is considered necessary to arrange for an issue of \$300,000 first mortgage 5% 20-year bonds, \$500,000 6% non-cumulative preferred stock which may be retired any time after five years, and \$1,000,000 common stock. The bonds are disposed of at 90% of their face value and proceeds used for erecting buildings and purchase of machinery and equipment.

The preferred stock is sold at 85 and one share of the common stock is given with each share of preferred stock, the common stock remaining being disposed of at 40. How could you deal with the discount in each case?

Question 471

A company whose capital stock is \$250,000, divided into \$100,000 6% non-cumulative preferred shares and \$150,000 common shares, begins its life with an excess of liabilities over real assets to the extent of \$10,500, which sum is debited to Suspense account. During the first few years small losses are made and carried forward on the Profit and Loss account, but finally sufficient profits are earned to wipe out the losses of the previous years and leave a balance of \$16,500.

The holders of the preferred stock claim that any surplus profit, after payment of the preference dividend, should be used to extinguish the Suspense account.

The holders of the common stock claim that all of such surplus is properly available for their dividend on the ground that the original deficiency carried to Suspense account was in effect a charge to good-will.

Give briefly your understanding of "good-will." State how you would deal with it in this case, and whether the directors may pay any dividend on the common stock.

Question 472

A suburban traction company, after equipping its line at a very considerable expense for overhead trolley and operating same for several years, decides to adopt the third-rail system. Extensive changes are necessary in changing power-houses, rearranging tracks and altering cars, involving an expenditure of \$25,000. In addition,

considerable machinery and rolling stock, the original cost of which had been treated as a capital outlay and was carried on the books at a valuation of \$25,000, is rendered obsolete and is disposed of for \$3,500, showing a loss of \$21,500. The profits from operation for the year are \$18,000.

State how you would recommend that the matter be dealt with in the company's accounts, and whether the company can pay a dividend.

Question 473

In examining the partnership accounts of Black & Brown you ascertain that the capital of \$20,000 has been provided equally, and the articles of partnership provide that if any excess capital is supplied by either partner, interest at the rate of 5% per annum shall be allowed. Black pays in \$5,000 additional and is credited at the end of the year with 5% on same, which equals \$250, which is debited to Brown. State whether you consider this correct and give reasons for your answer.

Question 474

In the examination of a business you find that all past due accounts receivable are promptly charged to a suspense account and the suspense account is plainly stated on the balance sheet among the assets. Do you consider this satisfactory; or what form of account would you recommend should be set up to care for such items?

Question 475

State how you would deal with the following items of account in making an audit of an Illinois company:

- (a) Premium paid for a lease.
- (b) Commission on an issue of capital stock.
- (c) Discount on an issue of bonds, proceeds of which are used for plant construction.
- (d) Expenses incidental to organization.
- (e) Cost of removing certain machinery to a different part of the works and adding some new machinery.

Give reasons for your answers in each case.

Question 476

In large businesses internal auditors, members of the staff of the concern, are frequently the only ones employed. Where this is the case, do you think it desirable that professional certified public accountants should be engaged? If so, give your reasons.

Question 477

Assuming that you have been appointed auditor to a corporation or private firm on its formation, and have been asked to state for the guidance of the cashier and book-keeper the requirements you would expect to have been fulfilled when you come to make the audit, write out detailed instruction in the form you would actually give them

Question 478

What evidence would you require, first, as to the existence of assets (other than book debts) shown in a balance sheet; and, secondly, as to the correctness of the amounts at which they were entered in the books?

Question 479

Does an auditor's duty in any way extend beyond the careful examination and certifying of the books and accounts submitted to him? Discuss different theories.

Question 480

To what extent do you consider it an auditor's duty to examine into and report upon the stock inventories and the methods by which the stock has been taken and valued?

Question 481

A company shows among its assets \$2,675 as unexpired insurance on January 1, 1907. On February 1, 1907, the plant is destroyed by fire and a total loss of \$57,875 occurs, which the insurance company pays. How would you treat the \$2,675 unexpired insurance item?

Question 482

In auditing the accounts of a manufacturing company would you consider it proper to allow the Profit and Loss account to be credited with profit on uncompleted work?

Question 483

State your understanding of a "continuous audit." What are its advantages over a yearly or half-yearly audit? Can you point out any special dangers to which it is exposed?

Question 484

Explain shortly the effect of a fall of the Tael on each of the following:

A Chicago concern carrying on a general trading business in China.

A Chicago corporation owning a railroad in China.

A Chicago-Chinese bank.

Confine your answer to the effect that the variation in exchange should have on the published accounts.

Question 485

A corporation purchased a business as a going concern on January 1st, 1908, with a right to the profits from October 1st, 1907. Its capital is:

5% first preferred stock.....\$250,000.00

6% second preferred stock.....\$250,000.00

Common stock.....\$124,000.00

The year's profits to September 30th, 1908, are found to have been \$38,320. What appropriation of such profits would you consider to be correct?

Question 486

A cash book exists with three columns on each side, viz., debit side: Discounts, Cash Receipts, Bank; credit side: Discounts, Cash Payments, Bank.

In making an audit, you find that the cashier closed his cash book at the end of a month, bringing down a cash balance of \$177.91; you count his cash and find that he has only \$119.12. On going carefully through the month's transactions, you find that \$45.37 paid in cash had been entered in the bank column; the total of a previous page of cash receipts, \$2,516.25, was brought forward as \$2,525.75; the discount \$2.50 on an account paid had been entered in the cash column as a payment instead of in the discount column; \$10 received from a partner for payment

of private account had been included in the cash in hand, but not entered in the cash book.

Rule a form of cash book as above, enter the balance brought down, and make entries to correct the errors above described. Show the deficiency still existing, and state how it should be dealt with.

Question 487

Reply to the following letter :

DEAR SIR:

We wish you to audit our accounts for the past ten years and to report thereon. In your report please state what dividend may in your opinion be fairly expected in the future if the business is taken over by a corporation with a paid up capital of \$500,000. The capital of the partners during the period named has been \$375,000, and the profits divided have averaged over 15%, as shown by the accounts you are asked to verify.

Yours very truly,

SMITH & BROWN.

Question 488

An attorney-at-law joined an established firm in partnership without having the books investigated, relying on the firm's statement that they are making a certain profit. After several months have elapsed, the new partner, not being satisfied, instructs you to audit the accounts for the year immediately prior to his joining the firm. You discover that no break has been made in the books for years; what steps would you take to ascertain the exact profit for the year?

Question 489

In the case of a corporation the management suggests the diminution or suppression of depreciation on plant and machinery on these grounds:

- (a) Nothing need be written off, as the plant is actually more valuable, owing to a rise in the cost of similar machinery.
- (b) Repairs have been fully maintained, and the plant is as good as ever.
- (c) To charge depreciation to the same extent as in a good year will prevent a dividend, with consequent outcry by stockholders, and fall in the price of shares.

Combat these arguments.

Question 490

A corporation formed to invest in certain classes of securities has made a serious loss on paper, by a fall in the price of some of its purchases, while it has earned enough on income to pay the usual dividend.

How should this be dealt with in the annual accounts?

Question 491

A fraudulent cashier has embezzled some of the money passing through his hands. The books are kept on a double-entry system, and he has access not only to the cash book, but also to the journal and ledger.

Point out eight distinct methods by which he may try to conceal his theft.

Question 492

The directors of a certain company desire you to make a thorough audit of the accounts and state in your certificate "that the books are correct and all transactions have been properly recorded." Draft the form of certificate you would give.

Question 493

State the items of income or expenditure which you would add to or take from the profits of a firm (as shown by the books) in preparing a certificate to be used in the prospectus of a company which has been formed to take over the business.

Question 494

A company organized June 30th, 1909, purchased the plant and business of a private firm as of January 1, 1909, *i.e.*, the company is to have the entire profit which may have been made from January 1 to June 30. How would you apportion the year's profits in making up the accounts on December 31, 1909?

Question 495

A newly organized company permits its shareholders to pay in advance of certain calls made against their subscriptions, and allows them interest on such advances. How should interest so paid be treated in the accounts, or is it dependent upon subsequent profit?

Question 496

During the audit you are making of the accounts of a corporation, you become aware of a claim against the company which you think is likely to be enforced, but which the directors do not recognize, and for which they will make no reserve. What would you do in the circumstances?

Question 497

A corporation is established for working a patent of which ten years are expired, and for which a sum of money has been paid. How should the company deal with this asset, and what is the duty of the auditor in respect of it?

Question 498

How should an incorporated coal company estimate the value of its colliery in its balance sheet from time to time, first as a freehold, secondly as a leasehold?

Question 499

In the case of an incorporated company making considerably more profit than usual in one year, owing to extensive purchases on a rising market, would you advise declaring a proportionately larger dividend, or what would be your recommendation? State your reasons.

Question 500

In auditing the books of an importing and domestic wholesale wine and liquor dealer, how would you assure yourself of the correctness of the inventory as to the bonded stock?

Question 501

Beyond the mere detailed checking of purchase invoices to the ledger accounts with dealers, can you suggest any steps that might be taken which might be advisable with the view of the prevention of fraud?

Question 502

A corporation invests its reserves outside its business. On the audit of the accounts explain what steps you would take to verify the full receipt of the investment income and the safe custody of the trust funds?

Question 503

Upon the audit of the partnership accounts of a manufacturing business the following conditions are revealed:

- (1) Sales toward the end of the period are unusually large.
- (2) A large deposit in bank is made on the closing fiscal date, which amount is credited to the bank two weeks later.
- (3) Machinery sold has been credited to merchandise sales.
- (4) A loan to the firm has been credited by mutual consent to the capital account of one of the partners.
- (5) Depreciation or discount from the value of a certain class of the inventory instead of being 30% as in prior years, is shown as 10%.

What would you deduce from these facts, and what would you feel called upon to do by way of extended inquiry or report in each of these instances?

Question 504

A Chicago corporation does business in Brazil where its capital is invested, a balance sheet and profit and loss account in Brazilian currency being sent over at the end of each year for amalgamation with the Chicago accounts. During the last year assume that a heavy fall in exchange took place, say from 54 cents per milreis to 36 cents. At what rate of exchange would you take the Brazilian assets for the purpose of the American balance sheet? Would you treat the buildings, machinery and plant differently from the floating assets? Explain.

Question 505

The \$500 6% bonds of a corporation are issued at \$450 redeemable at par, by ten annual drawings. How would you treat these bonds in the profit and loss account and balance sheet?

Question 506

The following profit and loss account is presented to you for audit by the directors of a company, who intimate their willingness to modify it in accordance with your suggestions. How would you redraw it so as to show the exact profit for the period under audit?

To Rent.....	\$1,672.00	By Interest on invest-	
" Inventory	15,325.00	ments	\$4,660.00
" Bad debts.....	1,242.00	" Inventory	17,806.00
" Interim dividend..	5,000.00	" Sales	83,236.00
" Depreciation	650.00	" Balance from last	
" Purchases	66,728.00	year	2,627.00
" Directors' fees....	2,000.00	" Sundries	12.00
" Proposed dividend	4,000.00	" Reserve fund	
" Salaries	2,463.00	transferred	2,000.00
" General expense..	3,791.00		
" Wages	7,402.00		
" Balance	68.00		
	<u>\$110,341.00</u>		<u>\$110,341.00</u>

Question 507

What, in your opinion, is the best method of stating the profit and loss account of a trading corporation so that it shall give the greatest possible desirable information to the stockholders.

Question 508

A corporation took an inventory of its stock on December 31, 1910, at which time it was overdrawn at its bank about \$25,000. It kept its cash book open (as of December 31) for the greater part of January, during which time there was collected from customers over \$240,000, and \$176,000 of this was applied to payment of liabilities accruing in January.

State the effect of these January transactions upon the financial showing and your attitude as auditor in certifying to the statement.

Question 509

During the past fiscal year a concern under audit has not shown profit sufficient to justify paying a dividend. The manager in order to avoid showing a loss disregards the usual depreciation reserve charges for structures, plant, machinery, tools, and implements.

What would be your view as auditor under the circumstances? Give reasons as a feature of your report.

Question 510

In reviewing the schedules of open customers' accounts receivable for the purpose of setting up a reserve against irrecoverable amounts, how would you proceed? Lay out your method and state what conditions would prompt inquiry as to a possible default in any one item.

How should a reserve for cash discounts on outstanding accounts receivable be computed?

Question 511

In an audit if:

- (a) Cash is received but not properly accounted for.
- (b) Cash is paid for goods that were never delivered.
- (c) Cash is paid for wages that were not earned.

All with fraudulent intent; state concisely what means you would devise to prevent such happening in the future.

Question 512

What is the auditor's duty as to the inventory of a manufacturer's stock on hand:

- (1) As to the prices of raw material.
- (2) As to quantities of all items.
- (3) As to the extensions, additions, and summaries.
- (4) As to the conditions of schedules and summations comparatively with those of the opening of the term.
- (5) As to obsolete, spoilt, uncatalogued, or pattern goods.
- (6) As to its effect, in ratio, as a total on the gross profit.

Question 513

Distinguish between a "continuous" and "completed" audit, and state what you understand by: (1) a cash audit; (2) a financial or balance sheet audit; and (3) a general audit.

Question 514

What general procedure would you follow in auditing the receipts, or debit side of the cash book, of a manufacturing company where the transactions were not too numerous to render a complete detailed audit impracticable, and state what features of the audit you would omit where the transactions were too numerous to permit of a complete detailed audit.

Question 515

In the balance sheet of a concern under audit you find the accounts receivable and payable to be as follows:

Accounts receivable:

Chicago (head office) debtors.....	\$95,650.00
St. Louis branch account.....	2,425.00
Atlanta branch account.....	4,730.00
New Orleans branch account.....	1,725.00

Accounts payable:

Chicago (head office) creditors.....	\$41,500.00
New York branch account.....	7,200.00
Montreal branch account.....	3,752.00

What adjustments in the balance sheet, if any, would be necessary in order that an unqualified certificate might be given?

Question 516

Criticize the following balance sheet from both the auditor's standpoint and that of the company's financial position; assuming that the bonded indebtedness outstanding is \$200,000.

A. B. COMPANY

BALANCE SHEET—DECEMBER 31, 1911

ASSETS

Real estate, buildings, plant, machinery, equipment, and other permanent investments, including good-will.....	\$1,000,000.00
Investments in stocks and bonds at cost (market value \$60,000).....	100,000.00

Current Assets:

Inventories:

Raw materials.....	\$170,000.00
Finished stock at selling prices, less discount 5%....	100,000.00
Consignment (selling value).	50,000.00
Supplies (estimated).....	200,000.00
	<hr/>
	\$520,000.00

Accounts and bills receivable, including advances to employees	125,000.00
--	------------

Stock in treasury (unissued):

Preferred	\$150,000.00
Common	137,225.00
	<hr/>
	287,225.00

Investments in subsidiary companies

225,500.00

Cash and miscellaneous items..

50,500.00

1,208,225.00

\$2,308,225.00

LIABILITIES

Capital stock:			
Preferred stock.....			\$500,000.00
Common stock.....			750,000.00
Bonds and bankers' loans.....			575,000.00
Current Liabilities:			
Accounts payable.....	\$15,225.00		
Other indebtedness.....	231,000.00		
Accrued items.....	2,000.00	248,225.00	
Reserves:			
For depreciation.....	\$50,000.00		
Less: Renewal expenditures written off.....	65,000.00		
Balance (debit).....	\$15,000.00		
For bad debts.....	20,000.00		
Other contingencies.....	5,000.00	10,000.00	
Surplus (less dividends paid) in- cluding appreciation in real es- tate and other capital assets and profit on inventorying raw ma- terials at market prices.....			
		225,000.00	
		<u>\$2,308,225.00</u>	

Question 517

You find in the course of an annual examination as of December 31, the following:

(1) A credit balance in the cash account of.....	\$625.00
(2) In the credit ledger a debit balance for cash charged to Davis & Co. on July 31 for....	375.00
(3) In the debit ledger a credit balance for cash paid by Jones & Co. on December 31.....	250.00
(4) A debit balance also in the debit ledger to Winslow & Co.:	
July 1, Mdse.....	\$50.00
Aug. 3, Mdse.....	60.00
Sept. 15, Mdse.....	75.00
Oct. 10, Mdse.....	100.00
	<u>\$285.00</u>
Aug. 20, Cash & discounts	\$50.00
Oct. 3, " "	75.00
Dec. 1, " "	100.00
Dec. 31, Balance.....	60.00
	<u>\$285.00</u>
December 31, Balance....	\$60.00

What would be your views of each of these items?

Question 518

A company insures the life of its manager for its own benefit in the sum of \$50,000, the annual premium being \$1,250. Explain the method you would adopt of treating the disbursement at the annual accounting during the period the policy was in force.

Question 519

How far is an auditor entitled to probe into matters beyond the term which he is instructed to audit, and for what purpose should he do so?

Question 520

In the course of audit of an investment and brokerage corporation you find that the directors have written up the value of some of the securities, which they contend is in harmony with current market values. The accounts show that the dividend proposed to be paid has not been earned unless the increment in value referred to is included as a profit. What is your view of the proposed procedure of the directors? If you concur with their proposed action, state your reasons; and if not, state the procedure, as auditor, you would follow.

Question 521

(a) In the accounts of a wholesale dry-goods company, under what, if any, circumstances is it permissible to carry forward to a subsequent period the whole or any portion of the expenditures for salesmen's salaries or commissions and traveling expenses.

(b) In the accounts of a lumber company owning large tracts of standing timber, how should the book value of "Stumpage" be disposed of? What do you understand by "Stumpage"?

NEW JERSEY

Question 522

The general business public frequently makes no distinction as between a bookkeeper and an accountant. What is the distinction? Define in your own words:

- (a) A bookkeeper
- (b) An accountant
- (c) An auditor
- (d) A practicing public accountant and auditor

Question 523

A business man sends for you and talks to you thus: "I want my books and accounts examined. I am informed and believe them to be all right, but I want to be assured of it beyond doubt. I also want to know the condition of my business, as the books show the same, at this date. I also want to know if the business has made money or lost money, and in either case what amount. What will the 'job' cost me, and how long will it take to find out?"

- (a) How would you deal with such a case?
- (b) What would you require to have furnished to you so that you could ascertain the facts wanted?

Question 524

Good-will:

- (a) What is good-will?
- (b) What part does it play in corporations?

Question 525

Three gentlemen have been associated as partners in a certain manufacturing enterprise. At the close of the year they desire an honest and fair adjustment of the result and division of the resulting gains. They have agreed to abide by your decision. They furnish you the following facts:

- (1) Anderson, Brown & Cristy are equal partners in a manufacturing enterprise.
- (2) Each partner to receive 6% interest on his average investment.
- (3) Cristy, as superintendent, to receive yearly salary of \$3,000.
- (4) Brown keeps a general store, at which the operatives deal, and Brown has agreed to allow Anderson and Cristy 5% on his sales to the operatives.
- (5) Brown's sales to the operatives amounted to \$1,575.
- (6) Anderson to receive for his services as selling agent 10% on the net profits as existing before his percentage is taken.
- (7) Anderson's average investment for the year is \$9,750.
- (8) Brown's average investment for the year is \$5,750.
- (9) Cristy's average investment for the year is \$5,000.
- (10) Leaving out the interest, salary, and Anderson's and Cristy's percentages, the net gain for the year is \$15,000.

What share of the \$15,000 is each partner entitled to?

Prepare a sheet that will show under separate heads:

Accounts, with items, of Anderson, Brown, Cristy.
Distribution of the gain.

MICHIGAN

Question 526

What is the general course for an accountant to follow when called upon to audit the books of any business?.

Question 527

How would you classify the accounts in preparing a statement of the following:

- (a) Gas and electric light company?
- (b) Electric railroad?
- (c) A manufacturing business?

Question 528

Should depreciation be written off the accounts of a corporation whose property is of a wasting nature, such as a quarry or a mine? Give reasons.

Question 529

The J. B. & B. Coal Company has acquired a leasehold right to a certain area of coal, and also owns a freehold coal. What would you require, as auditor, to satisfy yourself that revenue was bearing its proper annual charge in respect of the coal mined?

Question 530

Chart the following accounts of a street railway company under their proper classification and logical order, as to the assets (active, fixed, and passive), liabilities (funded, floating, reserves and capital), expenses (transportation,

including operating of power plant and car service), (general, including administrative, emergencies, and fixed charges), (maintenance, including repairs and depreciation), and revenue, (a) from operations and (b) from other sources.

Organization expenses, preliminary engineering and superintendence, right of way, track and roadway, notes payable, cash in office, profit and loss, power plant wages, salaries of general officers, damages, taxes, electric line, investment real estate, debentures, vouchers payable, stocks and bonds of other companies, hired power, wages of conductors and motormen, car service supplies, insurance, first mortgage bonds, Ninth National Bank, cleaning and sanding track, printing and stationery, legal expenses, rent of land and buildings, notes receivable, shop tools and machinery, passenger receipts, rolling equipment, dividends, material and supplies, freight receipts, interest on deposits, track rentals, common stock, sinking funds, good-will, mail receipts, sale of power, dividends on securities, salaries of clerks, removal of snow and ice, advertising and attractions, storeroom expenses, steam plant, items in suspense, impairment and surplus, first preferred stock, repairs to equipment, reserves, accounts receivable, second preferred stock, second mortgage bonds, fuel and water for power buildings, and fixtures.

Question 531

A \$100 bond is issued at \$115 and is payable as to \$35 on allotment, and to the remaining \$80, in four equal instalments at intervals of two months, the first instalment being due two months after the allotment. If after a year a dividend of \$6 is paid on each bond, what is the average rate of interest on the investment for the whole year?

Question 532

John Adams, a capitalist, contemplates purchasing the stock of the American Grain Exporting Company, a corporation organized with a capital of \$200,000, divided into 1,000 shares preferred stock and 1,000 shares common stock, par value \$100 each; 6% dividends payable upon the preferred stock before any dividends are declared upon the common stock.

This stock has been offered to Mr. Adams at \$60 per share for the preferred and \$40 per share for the common.

You are requested to audit the books of the company and give your opinion as to the value of the stock. You find the following accounts to be correct, covering a period of one year:

Cash	\$900.00	
Accounts receivable:		
Good	\$15,000.00	
Doubtful	4,000.00	
Bad	6,000.00	25,000.00
<hr/>		
Plant and machinery.....	75,000.00	
Horse and wagons.....	4,000.00	
Merchandise—inventory	29,000.00	
Good-will	50,000.00	
Furniture and fixtures.....	2,000.00	
Expenses	3,000.00	
Wages	15,000.00	
Purchases	325,000.00	
Claims and rebates.....	8,000.00	
Ordinary repairs.....	9,000.00	
Sales		\$260,400.00
Mortgage on plant.....		25,000.00
Accounts payable.....		42,000.00
Surplus		18,500.00
Capital stock.....		200,000.00
<hr/>		
Totals.....	\$545,900.00	\$545,900.00
<hr/>		

Inventory submitted, \$129,000. The company started business six years ago and built the plant and machinery and purchased the property pertaining to fixed capital. Write the report, commenting upon the advisability of the purchase, and submit profit and loss statement and balance sheet, after closing books.

Question 533

The cashier of a firm has disappeared. The cash book is left written up and balanced off, the custom being to pay any cash balance into the bank each day. What course would you take to ascertain whether there were any defalcations, if you were called upon to audit?

Question 534

What is the average date of the following: (a) \$114 due April 10; \$140 due April 26; \$320 due May 22; \$976 due June 6? (b) June 3, \$375 on 30 days' time; June 28, \$420 on 60 days' time; July 16, \$560 on four months' time; September 4, \$228 on 90 days' time? (c) Dr. May 16, \$437, Cr. May 23, \$400; Dr. May 31, \$324, Cr. June 16, \$300?

Question 535

(a) If instructed to carry out a monthly audit by the auditing committee of a club, what steps would you take to ascertain whether any speculations by the servants or stock clerks were being carried on in connection with the kitchen and café?

(b) What system would you recommend to prevent dishonesty on the part of the various employees, from the time orders are placed for buying the provisions and supplies, until the accounts of members are paid to the cashier and banked?

Question 536

(a) A man invests \$2,000 in 3% stock at 84, and \$5,000 in 4% at 96. After three years he sells the former at 72, and the latter at 101. What rate of interest has he received during the three years on his investment? (b) And to what extent has the value of his capital changed? Show by figures how you worked out the answers.

Question 537

An American firm has an extensive trade with Spanish and English customers, to whom goods are invoiced in Spanish and English currency, and payments are accepted made by bills in those countries. This firm's principal business is, however, in the United States. Explain in what manner you would arrange the books to be kept, and the titles of any special accounts that might be necessary to keep.

Question 538

Jones and Brown are partners, sharing profits equally. Their capital as it appears on the books of the partnership on the date they dissolve partnership is: Jones, \$2,000, and Brown, \$500. The total amount owing by the firm is \$5,000, which includes \$1,000 due to Jones on a loan, and \$500 due to Brown on a loan. The whole of the assets of the firm realize \$6,000. Prepare your own accounts and supply details for closing up the partnership, showing the position in which the partners stand with each other.

Question 539

How would you deal in a life insurance company's accounts with premiums received, bearing in mind the fact that premiums are always paid in advance? Should you apportion them? Explain fully in your answer.

Question 540

A certain issue of \$100,000 4% bonds is dated September 1, 1908, and interest begins at that date, but interest is payable on February 1 and August 1, and the principal (with four months' interest) is payable December 1, 1912. What is the value of these bonds on a 3.60 basis at the date of issue? What is their value at the same basis if purchased on December 1, 1908? (Note that you are interpolating into a five-month period, not a six-month, in the beginning.)

Question 541

An ice company sells coupon books which are paid for in advance. What accounts would be required for the purpose of correctly auditing the sales and deliveries in order to determine the exact earnings at any given time?

Question 542

What do you understand is the purpose of the Commission on Economy and Efficiency appointed by President Taft?

Question 543

Give the arguments for and against figuring interest on a manufacturing investment as a part of the cost of production.

Question 544

In auditing a business, you find that the market value of securities owned by it has depreciated during the year to an amount equal to the earnings of the business proper. In making your report how would you treat that situation?

Question 545

If you were appointed auditor of a club, such as the Fellowcraft Club, in which receipts are from dues and café services, what method would you prescribe for keeping the accounts so that you might be able to make a check upon the goods side of the institution?

FLORIDA

Question 546

A company is organized in New York to lend money on real estate mortgages in Florida.

What examination should an auditor make of such mortgages, and how would he guard against duplicate mortgages on the same property?

Question 547

A new company sells some of its property at a premium. State how these premiums should appear in the accounts.

Question 548

Suppose you had certified the balance sheet of a manufacturing concern, and were asked by a stockholder why you had certified it as correct when some of the assets were not salable at the figures placed against them, what reply would you make?

Question 549

A firm has been doing business for you ten years, during which time no audit has been made and nothing has been charged off on account of bad debts. There are six hundred accounts on the ledger.

State how you would verify and classify them.

Question 550

Give your opinion as to the advantages, or disadvantages, of bound and of loose-leaf ledgers; and give at least two methods for preventing improper abstracting of leaves from loose-leaf books.

Question 551

In auditing a large concern, such as a mining company operating a number of distinct plants, how should you satisfy yourself that the following items were properly accounted for and safeguarded?—

- (1) Advances on pay-rolls, both cash and merchandise.
- (2) Unclaimed wages.
- (3) Purchases which are made by one purchasing agent for all the plants.

Question 552

On certain lines of business (*e.g.*, real estate companies, sewing machine agencies, retail furniture houses), a large portion of the sales are made on the instalment plan, and at the close of any period a large number of such transactions may be uncompleted.

How should the profits from such uncompleted sales be treated in the balance sheet?

Question 553

Define secret reserves, and state the duties of an auditor in connection therewith.

Give your opinion as to the advantages or dangers arising from such reserves.

Question 554

While examining a bank, you find that many indorsed notes have been extended beyond their original dates.

Is such a good practice? Name at least two methods for guarding against any danger arising from it.

Question 555

In auditing the accounts of a business where accounts receivable are kept in a sub-ledger, with a proper controlling account in the general ledger, give your opinion as to the extent to which the sub-ledger should be checked, under various circumstances.

Question 556

How would you show in your report of an audit you had made, fluctuations in the value of the following securities owned by the concern:

- (a) Real estate
- (b) Stocks and bonds
- (c) Material on hand

In some cases the present prices are higher; and in some they are lower than when the securities were bought. State your idea of the general principles governing such variations.

Question 557

You are consulted by a wholesale grocery house whose accounts are supposed to be kept by double entry, and are asked to examine the record of the chief bookkeeper who also acts as cashier and who is suspected of dishonesty. He has been in charge for six months; the cash book, journals, and ledger appear to have been kept day by day, but the

general ledger has at no time been in balance, nor do the customers ledgers balance with the controlling account in the general ledger.

The volume of business is large and there are 1,500 open accounts in the customers ledger.

State fully what steps you would take.

Question 558

On closing the audit of a year's business you find that many items under "Accounts Receivable" are of long standing. State what special examination you would make of these to determine their value, and what, if any, remarks you would make thereon in your report.

Should the treasurer, or other officer, object to the amount you wish to write off or to provide for by a reserve account, what would your action be?

If on a second audit, a year later, you find that many of the same items still remain unchanged, what action would you take?

Question 559

When auditing at the end of its first year's business the accounts of a land development company, organized for the purpose of buying, developing, and selling lands, state what books and documents you would require to complete your work.

Question 560

In auditing a hotel managed on the European plan, where proper accounts are kept and perpetual inventories of stores on hand are maintained, what form of monthly statements would you suggest, especially in connection with the operation of the dining room and wine room?

Question 561

Give the general duties of the auditor of a corporation in this country, compare them with the same duties in England, and give your comments on the differences between the two systems.

Question 562

You are engaged to audit the books and accounts of a concern after the books have been closed and the balance sheet and profit and loss statement have been prepared, and you find the following items are included in the profit and loss statement:

Increase in value of stocks held.....	\$1,000
Increase in value of real estate held.....	10,000
Profit from sale of the company's treasury stock..	1,200
Profit from sale of real estate.....	5,000
Profit from stocks and bonds sold.....	800

Criticize these entries, and, if you think them erroneous, state how you would correct them.

Question 563

Give in detail a method for verifying the payment of interest on coupons from bonds of a company you are auditing, and state how proof of such payments should be presented to you.

Question 564

In auditing the accounts of a merchandise broker, how would you verify his statement of brokerage due to him from the houses for whom he sells? Supposing that many of these items were on shipments not made at the time of the audit, how would you treat them in your statement of assets?

Question 565

You are called in to audit the accounts of a mercantile corporation and find that the market value of its real estate holdings has greatly enhanced. Previously it has been carried on the books at cost. The managing director now asks that there be added to the Real Estate account an amount sufficient to represent its increased value.

Would you consent to this and, if so, how would you show the increase in preparing the profit and loss account and balance sheet?

He also wishes to add to the Real Estate account interest paid on money borrowed to pay for it. Is this right? Supposing it to be right, how would you show it in preparing your profit and loss account and balance sheet? Would your answer be changed if the concern were one buying and selling real estate exclusively?

Question 566

As to inventories:

Describe what you consider the correct attitude of an auditor regarding inventories generally, and especially when preparing a balance sheet for a bank:

Real estate company

Wholesale grocer

Orange grove

Steamboat company

Question 567

Describe a perpetual inventory, its advantages and disadvantages, for each of the above businesses.

Question 568

You are called in to audit the books of the Fla. Land &

Homeseekers Co., a corporation capitalized at \$250,000; the par value of the stock is \$100 per share.

Among other ledger accounts, you find accounts with balances as follows:

Capital stock.....Cr. \$250,000.00

Treasury stock.....Dr. 25,000.00

An examination of the stock certificate book shows you that certificates in the amount of \$15,000 have been issued. Reference to the subscription record informs you that stock in the sum of \$225,000 has been sold and charged to the ledger accounts of the various subscribers. You find that \$45,000 has been credited to these accounts for cash paid in. The by-laws provide that no certificates shall be issued except for fully paid stock. You find that the company has in its safe \$5,000 worth of certificates of its own stock which it has bought back from subscribers whose ledger accounts have been credited for the amount. The company has not begun to do business yet and no transactions other than those mentioned have taken place. Draw the company's balance sheet, giving your reasons for the results shown therein.

Question 569

Define and differentiate between:

- (a) Debenture bond
- (b) Mortgage bond

Question 570

Your clients send you the annual profit and loss account of a wholesale grocery house that sells about three millions a year. Your clients ask that you advise them whether or not the profits shown for that year are correct. Your time

is limited, and, therefore, you are unable to make a detailed audit of the books to ascertain whether the profit and loss account submitted to you is correct or not. What method would you follow to ascertain the approximate correctness of the account submitted to you? Describe in detail what your operations would consist of.

Question 571

A municipal board built a number of new buildings during the last year, buying its own material and paying its foremen and carpenters by the day. You are told that one of the buildings cost much more relatively than the others, without apparent reason, and you are asked to submit a plan which will determine the facts in the case and locate abnormal charges.

What plan would you suggest?

Question 572

You are called in to audit the accounts of the S. P. Brown Co., a corporation, at the close of its first business year. The company began business Jan. 1, 1912. You find the following trial balance on the bookkeeper's desk:

Cash	\$895.00	
Capital stock.....		\$50,000.00
Accounts receivable.....	35,000.00	
Accounts payable.....		47,450.00
Bills payable.....		10,000.00
General expenses.....	27,842.85	
Salaries	4,644.29	
Sales		127,402.95
Purchases	104,948.51	
Furniture and fixtures.....	5,943.43	
Cost of charter.....	375.00	
Real estate.....	55,203.87	
	<u>\$234,852.95</u>	<u>\$234,852.95</u>

You find that the General Expenses account includes the following items:

Commissions paid for selling capital stock.....	\$5,742.00
Compiling a list of possible customers for circularizing purposes (the list was only completed and ready for use by the end of the year)	3,000.00
Insurance	542.97
License	457.84
Office supplies.....	400.00

The balance of the account represents freight on purchases.

The unexpired insurance is \$22.65.

The unexpired license is \$271.48.

It is desired to make the profits show up as well as possible consistent with the truth. It is not desired to write off anything for depreciation.

You find that the Real Estate account includes:

Taxes to the amount of.....\$	947.84
Merchandise inventory.....	10,454.92

Draw the balance sheet.

Question 573

Doe & Co. allow their bookkeeper to sign all checks. In verifying the bank account as it appears in their ledger you find that after allowing for outstanding checks the ledger balance agrees with the balance shown by the bank pass book. You find, however, a credit in the ledger of \$1,000, and upon looking up the journal reference find this entry:

Profit and loss to bank..\$1,000.00 \$1,000.00

with no explanation. You find no cancelled check to account for this entry, and upon examining the bunch of cancelled checks returned by the bank you find that they total

\$1,000 less than the amount actually paid by the bank as shown by the pass book. What is the implication and how would you verify it?

Question 574

You are engaged to certify to a balance sheet of a wholesale grocer, and to make such further audit as you may consider necessary as the work progresses.

Write such a report and certificate as you would render after having completed the work and found some auditing necessary (*e.g.*, in connection with salesmen's accounts), bearing in mind that your certificate will be read by persons unacquainted with the exact instructions given you or with the details of the business.

Question 575

In auditing the accounts of a company you find that no depreciation has been charged against its plant and machinery but all repairs have been charged against revenue. You find that the land upon which the buildings and machinery of the company stand has greatly enhanced in value and that nothing showing this has been placed on the books.

How would you handle this situation?

Question 576

(a) The bookkeepers of Jacksonville Mercantile Co. find that accounts receivable as taken from the ledgers amount to \$14.50 more than the balance shown by the controlling account. There are 5,000 open accounts. The bookkeepers have been checking back for weeks in the effort to locate the difference, but have given up in despair. You are engaged to locate it. Formulate your plans.

(b) What method would you adopt to verify the correctness of Accounts Receivable, Bills Receivable, Accounts Payable, and Bills Payable?

COLORADO

Question 577

What plan would you suggest to minimize the risk of fraud in the following:

Pay-rolls?

Accounting of cash receipts?

Invoices of purchases?

Question 578

State with reasonable fullness (not less than 300 words) the various steps, the details and objects therein, in the audit of *one* of the following classes of audits:

A bank.

Wholesale mercantile house. (Specify nature of business.)

County treasurer's office (Colorado).

City clerk's office, where the clerk is the collecting officer, except of taxes, which are paid to him by the county treasurer.

Question 579

Under what circumstances can a bookkeeper cover up forced footings and postings during the course of the audit, so that ordinarily you would not detect the same, unless certain precautions are taken? State what these precautions should be.

Question 580

(a) Of what use can the various items of "Checks" listed on deposit tickets be in an audit?

(b) Under what circumstances will the same prove to be of no value?

Question 581

(a) State what points you would observe in the auditing of vouchers covering disbursements.

(b) State your method and procedure in an audit, in determining that you have seen all vouchers, even though some of them have been credited to personal accounts, and payments have been made to "apply on account."

Question 582

After completion of the audit which you described in question No. 578, state what matters you would refer to in the diction of your report, and what schedules you would show in support of the audit made.

Question 583

State where you feel that your duty ends in the correction of errors located during an audit after the books are closed.

Question 584

Upon beginning the work of an audit of a company whose business and the conduct of the same are comparatively unknown to you, how would you proceed, and what general precautions would you take? Give a brief outline of how you would spend the first day or two.

Question 585

What points in an audit are to be observed in the verification of notes receivable held as securities?

OHIO

Question 586

State the proper treatment of the following accounts in determining the profit or loss of a business for a specific time:

- (a) Insurance Premiums Paid
- (b) Doubtful Accounts Receivable
- (c) Interest Accrued on Notes and Accounts Receivable
- (d) Interest Accrued on Notes and Accounts Payable
- (e) Contingent Claims for Personal Injuries
- (f) Depreciation

Question 587

A sale company has completed a manufacturing plant, the machinery and equipment cost being \$250,000. It is assumed that because of the nature of the business the entire machinery and equipment will have to be replaced every several years. In such a case how would you recommend that current repair and maintenance charges should be handled?

Question 588

In making an audit in which you have the right to make correcting entries on the books of the company, how would you require the following items to be charged—Capital account or Revenue account?—

- (a) Premium given for lease
- (b) Cost attending giving of mortgage
- (c) Commission paid for selling capital stock
- (d) Brokerage on purchase of investment
- (e) Accrued interest or dividends included in the cost price of an investment
- (f) Preliminary and organization expense in the formation of the company
- (g) Insurance premiums paid in advance
- (h) Cost of replacing an old machine with a new machine of greater value
- (i) Premium paid on the purchase of a security

Question 589

(a) You are called upon to audit the books of account of a concern, and discover that for the fiscal year under your inspection it has not shown sufficient profit to justify the payment of any dividends. The manager, in order to make a profit showing, has failed to set up the usual reserves for depreciation of buildings, plant, machinery, tools, etc., nor has he sufficiently allowed for losses in the collection of accounts receivable, etc. In making your report of audit, what would you do under the circumstances? Give your reasons therefor fully in such form as you would submit them in your report.

(b) In what way, if at all, would you report the fact that a trusted office manager had overdrawn his salary account at various times, in no case more than \$300, all of which has been returned before the time of the annual audit? State your reasons fully.

Question 590

(a) How would you account for the proceeds of sales to customers without checking each entry?

(b) In passing upon the value shown in the inventory, how should the auditor treat materials costing \$10 per unit when the market price is \$8 per unit, and when the market price is \$12 per unit? State reasons fully.

Question 591

Does an auditor's duty in any way extend beyond the careful examination and certifying of the books and accounts submitted to him? Discuss briefly different theories.

Question 592

(a) The auditor of an incorporated company which has been accustomed to making investments in interest paying securities, in making his statement to the directors presented a balance sheet showing a surplus of \$65,000. After discussion, the directors determined they did not wish to declare a dividend out of this surplus and gave their auditor the following order:

"Decrease this surplus by investing \$50,000 in the 5% bonds of the X Y Z Railroad Company."

Presuming there was an item in the aforesaid balance sheet of cash \$75,000, what effect will the carrying out of the director's order have upon the surplus of \$65,000.

(b) What is an audit? Make a definition.

Question 593

(a) What is the difference between an audit and an investigation?

(b) What is your understanding of a cash audit?

(c) What is your understanding of a balance sheet audit?

Question 594

(a) A client consults you in regard to auditing his books and asks your opinion as to the relative merits of a "continuous" audit and a "completed" audit. Explain the advantages and disadvantages of each.

(b) Give your views concerning the best methods of auditing cash receipts—also cash payments.

Question 595

If you found that the land of a manufacturing corporation had been reappraised at a higher value than its former book value which represented its cost, and such increase had been carried to profit and loss, what would you do and say about it in your report of audit? What if the value had been reduced? State your reasons for your action fully.

Question 596

(a) A manufacturing corporation consigning its product to a large number of independent sales agents is somewhat in doubt as to how this consigned merchandise should be accounted for on its books. What method would you recommend? Describe fully.

(b) How may the accounts in a trial balance be best arranged to facilitate the preparation of a "Statement of Condition"?

Question 597

Given the following accounts appearing on the ledger of a company whose books you are asked to audit:

Accounts Receivable

Cash

Good-Will

Notes Receivable

Real Estate
Machinery and Equipment
Organization and Promotion Expense
Inventories
Accounts Payable
Accrued Interest
Accrued Wages
Notes Payable
Mortgage Bonds
Capital Stock
Sinking Fund
Sinking Fund Reserve

Outline your method of procedure in making a balance sheet audit, and state what you regard as necessary in making such an audit.

Question 598

Assuming the data is the same as given in the preceding question, outline your method of procedure in making a "Detailed Audit" and state to what extent and how you would verify the different items enumerated.

Question 599

What do you regard as the proper method of presenting a "Balance Sheet"; that is, as to form and as to arrangement of the items thereon.

Question 600

Prepare a manufacturing, a trading, and a profit and loss statement (without using figures) and include therein the following items:

Insurance of factory
Freight inward

Interest allowed on partners' capital
Salesmen's commissions
Labor in getting raw material from freight cars to warehouse
Cash discounts received from creditors
Royalties paid for use of patented process in manufacturing
Returned sales
Rent of factory
Depreciation of office building
Cash discounts allowed to customers
Depreciation of machinery
Freight outward
Interest on capital borrowed to purchase machinery
Allowance to customers for damaged goods

Question 601

What would be your method in the preparation and arrangement of working papers during an audit and their preservation after an audit?

Question 602

An audit discloses payments for insurance during a year to be \$1,600, which is approximately a normal yearly expenditure, and the unexpired insurance, unadjusted, amounts to \$600. No account was raised for unexpired insurance at the beginning of the year. What adjustment should be made on the books and how made?

Question 603

Give auditing reasons for discontinuances of a method by which petty disbursements in a manufacturing concern are made directly from cash receipts. Suggest alternative procedure.

LOUISIANA

Question 604

If an appraisal by a recognized appraisal company or engineer is furnished you on the properties, machinery, franchises, etc., of a client which does not accord entirely with your views, would you accept figures as shown by the appraisers or endeavor to establish your own in making up a statement of condition at the date of appraisal? Why?

Question 605

If asked to certify to the correctness of a statement of a building and loan association, how would you proceed to prove correctness of Mortgage Notes, Paid-up Stock, and Current Stock?

Question 606

Explain the difference between cost and book value?

Question 607

If you are unable to properly verify customers' accounts what would you do?

GEORGIA

Question 608

In the construction of a large building the proprietors issue \$800,000 20-year 6% bonds which are disposed of to the contractors at 85% of their face value. You find, upon examination, that the discount of 15% has been charged to Construction account in the first place, and then into Building account. State whether you consider the final entry legitimate or not, and give reasons.

Question 609

You are elected the auditor of a corporation by the holders of both common and preferred stock, and it is your duty to safeguard the interests of both classes of stockholders. The preference stock bears 7% and is non-cumulative. Mention what precaution you would adopt to safeguard the interests of the preference shareholders, giving reasons therefor.

Question 610

After auditing the books of a manufacturing company for a period of ten years you are asked to give a certificate as to the net earnings of the business for those ten years for the purpose of a sale based on the earning capacity of the property. What items of expense heretofore charged annually through the Profit and Loss account may be properly eliminated in the preparation of your certificate; and why?

Question 611

Describe in detail the method that should be used to verify the securities representing the investments of a company under audit, in the case of (a) real estate, (b) mortgages on real estate, (c) certificates of stock, (d) railway bonds.

MISSOURI

Question 612

Outline the work you would consider necessary in the audit of one of the following:

- (a) Bank
- (b) Stock brokers' accounts
- (c) Building and loan association
- (d) Lumber company
- (c) Coal mining company

Question 613

A corporation was formed to acquire certain assets, the agreed-on purchase price being \$100,000. It was afterwards found that title to some of the assets could not be transferred without considerable expense, and the vendor agreed to an abatement of \$10,000. This latter amount was credited to a reserve fund and that account was charged with the cost of perfecting the company's title, amounting to \$6,000. There was also charged to the account the preliminary expenses in the formation of the company, and the balance of the account, amounting to \$1,000, was credited to profit and loss. As auditor, would you object to these entries, and how would you suggest they should be dealt with, giving your reasons therefor?

Question 614

In the accounts of a parent and subsidiary company, it is found that the latter owes the former a sum of \$100,000

on current account, and \$50,000 on notes payable. These notes have been discounted by the parent company. How would you treat the items in consolidating the accounts of the two companies?

Question 615

In the audit of a company's accounts you find that a number of invoices, dated prior to the close of the company's financial year, have not been taken up on the books. On inquiry you are informed that the goods in question have not been inventoried. Explain fully the grounds you would advance against this treatment. If the officials refuse to alter the accounts, would you consider it necessary to mention the point in your certificate?

Question 616

Under what circumstances would you advise the consolidation of the accounts of a parent company with those of its subsidiary companies?

Question 617

In the case of a controlled company whose assets and liabilities are all consolidated in the balance sheet of the parent company, how would you treat in the consolidated balance sheet the capital and surplus accruing to the minority stockholders?

Question 618

In auditing the balance sheet of a railroad company as at June 30, 1912, it appears that the company have included amongst the general liabilities a dividend on preferred stock due July 15, 1912, whilst per contra they have included under current assets the cash appropriated and deposited for the dividend. Do you consider the treatment correct?

Question 619

In the preparation of the return for corporation tax purposes for the year 1911, how would you treat the inclusion of:

- (a) Corporation taxes estimated due for the year 1911?
- (b) Corporation taxes for the year 1910 paid in 1911?

Question 620

Outline the programme of a detailed audit of one of the three following companies. You are required to certify the balance sheet and profit and loss account.

- (1) Wholesale and retail dry-goods store
- (2) Brass foundry
- (3) Electric light and power company

Question 621

After completing the audit of a corporation for one year you have been requested to furnish your client with a certificate as to the correctness of his balance sheet. Your examination, however, disclosed the following facts:

(1) Owing to the manner in which the books have been kept it was impracticable to ascertain the correctness of all the charges to the property and fixtures accounts, although you have verified the charges for the past year. Depreciation at proper rates has only been written off these accounts for the year covered by your audit.

(2) Merchandise valued at \$50,000 has not been included in the inventory, nor has the corresponding liability been placed on the books.

(3) The customers' accounts receivable aggregate

\$200,000, but the collection of an account of \$50 is, in your opinion, doubtful, and no provision has been made for same.

(4) Customers' notes receivable of \$10,000 were discounted with the company's bankers a few days prior to the date of the balance sheet.

Draft the certificate which you would be prepared to furnish to your client as to the correctness of his financial statement.

Question 622

How would you vouch the following items and what papers would you examine in support of these transactions :

(1) Thos. White & Co., furniture purchased.....	\$325.00
(2) Alex. Green, real estate for plant site.....	7,500.00
(3) American Sprinkler Co., sprinkler system installed..	35,725.00
(4) John Mace, stumpage purchased.....	3,625.00
(5) Burns Trust Co., bonds purchased at par, \$3,000, less commission, \$30.....	2,970.00
(6) Machinery constructed by company.....	10,500.00
(7) Alex. White, traveling expenses for a week.....	37.67
(8) Commerce Bank Co., note payable discounted.....	987.50

Question 623

As a public accountant, you are asked to prepare and certify to the balance sheet of a company at December 31, 1913. The president of the company informs you that a tentative balance sheet, a copy of which is submitted to you, has already been issued by him to the company's bankers and note brokers. He is consequently anxious that you accept his classification of assets and liabilities. On an examination of the balance sheet the following points come to your notice :

(1) Included under Real Estate, Plant and Equipment, is an item of \$25,000, representing the cost of certain unimproved real estate which the company had purchased five years ago, intending to build a branch factory.

(2) The accounts receivable are stated at \$571,435.25, an analysis of which shows its composition to be as follows:

Customers' accounts.....	\$325,671.10
Due by officers and employees.....	30,131.05
Capital stock subscriptions, not fully paid.....	175,500.00
Advance payments on merchandise purchased..	31,000.00
Bonds due October 31, 1913.....	9,133.10
Total.....	<u>\$571,435.25</u>

(3) The reserve for loss on customers' accounts is shown as a separate item on the liability side of the balance sheet.

(4) The accounts payable of \$301,210.96 include a balance of \$31,231.35 due to a subsidiary company.

State as briefly as possible how you would deal with these items in preparing your balance sheet, and in what instances you would accept your client's classification.

Question 624

You are examining the accounts of a corporation and find that the directors have not depreciated the buildings, machinery, and equipment, on the ground that the real estate has increased. Draft a memorandum to the board of directors, setting forth your views and stating the correct manner in which the values of these assets should be recorded on the books.

Question 625

You are auditing the accounts of the A. B. C. Paper and Pulp Company of St. Louis, at October 31, 1913, and you find that the entire output of paper is sold under contract to Smith & Co., Kansas City, at \$43 per ton f.o.b. Kansas City, deliveries being made upon order of purchaser.

This price of \$43 per ton is made up of the following component parts:

Cost of manufacture, including factory overhead....		\$25.00
Selling and administration expenses.....		1.00
Freight—St. Louis to Kansas City.....	\$3.00	
Expenses of delivery to railroad.....	.50	3.50
Profit to A. B. C. Company.....	<u> </u>	<u>13.50</u>
Total.....		\$43.00

At what figure would you permit the A. B. C. Company to inventory the paper on hand at the date of your examination? Please give full explanation in support of your answer.

Question 626

You are auditor for the Jones Grocery Company, operating a large store in St. Louis. After the completion of your last examination the client has discovered that Smith, the cashier, had appropriated certain moneys. Upon investigation, it was learned that his practice had been to make checks in favor of wholesalers. These were duly signed by Mr. Jones and handed to Smith for mailing. Certain checks were held out by Smith, the indorsement being forged. In making the daily deposit for the grocery company, Smith substituted these checks for currency which he retained. It is suggested by your client that you were guilty of negligence in not locating this defalcation. Draft a letter to your client explaining why you did not discover the defalcation, also stating how you would build up an organization to prevent defalcations of this kind in the future.

Question 627

You are engaged by a bank to make an audit for the purpose of reporting the correct net income of a certain

company for the past year. The directors of the company have already reported to the bank that the net income for that year was \$100,000. Your examination discloses the following facts:

- (1) Depreciation amounting to \$20,000 was not provided for.
- (2) According to the terms of a trust deed, under a bond issue, \$10,000 per annum should be credited to a sinking fund.
- (3) Dividends of \$10,000 on the preferred stock issue were payable on the date after the closing of the company's books.

State in what respects the net income as reported by the directors to the bank is incorrect, and explain how each of the above items should be treated in the company's accounts as at the date of the audit.

Question 628

You are making the examination of a financial statement of a manufacturing company for credit purposes. Your letter of verification from the note broker disclosed the fact that notes aggregating \$70,000 have been sold by him and the proceeds not remitted to your client until fifteen days after the closing of his books. These notes of \$70,000 represent part of notes aggregating \$100,000 which were sent to the note broker for discount one month prior to the date of closing, \$30,000 of which have not yet been sold by the note broker. No entries have been made upon the books of your client for these transactions. The client claims that he has the right to offset the liability for the discounted notes with the proceeds in the hands of his note broker, as these proceeds had not been remitted to him until after the

closing of his books. State your opinion with regard to this contention.

Question 629

A corporation recently organized has expended a considerable amount for advertising its products in newspapers, magazines, and on bill boards. What consideration would guide you as to the amount to be written off annually?

Question 630

On what basis should an inventory of a car builder company be prepared? Deal specifically with the following classes of material:

- (1) Lumber purchased from a sawmill in "green" state.
- (2) Cars under construction—four-fifths completed:
 - (a) When \$1,000 per car will be lost on completion of contract.
 - (b) When \$1,000 per car profit will be realized.
- (3) Castings manufactured by the company.

MINNESOTA

Question 631

Discuss "the proper method of treating discounts, freight, and haulage on goods or equipment purchased," "on goods sold."

Question 632

Discuss "the limitations of an investigation of a business on behalf of a projected purchasing company." To what extent would fraud by employees of the vendor bear upon the subject?

Question 633

In what respects would an investigation of a business on behalf of a retiring or deceased partner differ from one on behalf of a projected purchasing company?

Question 634

Discuss "the proper method of presenting the condition and earnings of a holding company which owns from 75% to 100% of the stock of a number of subsidiary corporations."

Question 635

As authorized by the board of directors, you are engaged to make an investigation of the Minneapolis Grain Company for the purpose of preparing a certified balance sheet as

at August 31, 1910, to submit to the banks in order to secure credit. The company is incorporated for \$100,000, divided into 1,000 shares of \$100 each, all of which have been issued.

The trial balance taken from the books of the company is as follows:

Wheat		\$50,000.00
Flax		30,000.00
Oats		25,000.00
Barley		25,000.00
Coal		5,000.00
Wood	\$2,500.00	
Bills payable.....		75,000.00
Bills receivable.....	5,000.00	
Accounts receivable.....	40,000.00	
Capital stock.....		100,000.00
Options or trades.....	80,000.00	
Interest	15,000.00	
Elevators	100,000.00	
Insurance	7,000.00	
Memberships	7,500.00	
Capital stock—Vienna Farmers Elevator Co.....	500.00	
Taxes	2,500.00	
Repairs and maintenance.....	5,000.00	
Furniture and fixtures.....	2,000.00	
General expense.....	20,000.00	
Salaries	25,000.00	
Expense account 1910 crop.....	500.00	
Accounts payable.....		500.00
Cash in bank and on hand.....	23,000.00	
Surplus		25,000.00
	<u>\$335,500.00</u>	<u>\$335,500.00</u>

On August 31, 1910, the company has inventories of grain, coal, and wood amounting to \$50,000.

In accordance with instructions, you do not make any allowance for depreciation on the elevators, neither do you accrue taxes, insurance, or interest. All other accruals have already been made.

Prepare balance sheet with certificate attached to be submitted to the bankers, and state what steps you have taken to satisfy yourself of the correctness of the assets and liabilities of the company.

Question 636

Describe the methods known to you of allowing for depreciation. Which method do you consider the most correct? Give reasons.

Question 637

A company under its articles of incorporation is required to set aside a certain percentage of its profit at the close of each year to provide a sinking fund for the retiring of its bonded indebtedness when it matures. Give the entries necessary to be made in the books setting up the reserve at the close of each year, also the entries required on the books when the bonds are paid off at maturity.

Question 638

Give the general headings of the classification of the revenue and expense accounts which are required to be kept by a railroad under the Interstate Commerce Commission.

Question 639

Trade discount on purchases is a deduction from the cost of purchases. Cash discount on purchases is an addition to income. Explain fully.

Question 640

What different considerations govern the valuation for balance sheet purposes of "fixed" and "current" assets?

Question 641

A mercantile concern sustains a partial loss by fire. The books are modern except no cost accounting is incorporated. The end of the fiscal year is December 31, when a physical inventory is taken; the fire occurred in October and was evidently a two-thirds loss, with full insurance. While the adjusters are at work you are called in to satisfy the firm as to their loss, so that they may be prepared for discussion with the insurance companies.

Outline your procedure and state how you arrive at the actual loss.

Question 642

State briefly your procedure for discovering frauds or errors in the accounts of a company because of:

- (1) Merchandise charged to customer but still in store.
- (2) Merchandise received into store, but not recorded on books.
- (3) Merchandise delivered but not charged to customer.
- (4) Cash received but not entered in cash book.

Give your suggestions as to method of bookkeeping, etc., for preventing these in the future.

Question 643

In your examination of the Horses and Wagons account of a company you find the following transactions have taken place:

- (1) Purchase of new horses to replace dead ones.
- (2) Horses exchanged and payment made for difference in value.

- (3) Loss of horses and wagons through accident, covered by insurance.

How would you suggest such matters should be treated in the Horses and Wagons account?

Question 644

Define "Internal Check" and give five suggestions with a view to efficient control and the prevention and detection of fraud.

Question 645

State concisely how you would treat branch accounts in the head office books, and your reasons for so doing.

Question 646

Referring to the previous question, in preparing a combined operating statement, what special accounts should be examined?

Question 647

State the special features which pertain to the audit of the books and accounts of a milling company.

Question 648

State the special features which pertain to the audit of the books and accounts of a theatre.

Question 649

State your understanding of the term "Contingent Liability" and give three examples of how it may occur. How would you treat such a liability on the balance sheet?

Question 650

You are called upon to investigate the accounts of a corporation for a period of ten years and to certify to the following:

Net sales in each year.

Net profit in each year.

Actual cash introduced into the business.

Discuss the proper method of procedure to arrive at these figures, not overlooking the fact that the company has several branches who sell to each other and that the capital stock was partly issued at a premium.

Question 651

When certifying a balance sheet do you object to the bulking of several assets in one account? If so, why? Give one example where it is policy to do this.

VIRGINIA

Question 652

A & Co. acquire the plants of B, C, D, and E, assuming their assets and liabilities at book values, the purchase price being one-half of the amount shown by the Surplus account of each. Without going into lengthy detail, but just considering the three items, Assets, Liabilities, and Surplus, what entries would you make to set up these accounts in the ledger of A & Co.?

Question 653

If it was found, after acquiring the above plants, that large amounts had to be expended in improvements to bring the plants up to their rated efficiency:

(a) Give a concise but full explanation of how you would classify such expenditures, naming the accounts you would debit and credit.

(b) Would such expenditures have any relation to the 50% equity A & Co. were supposed to have purchased?

(c) State your reasons for the preceding answer.

Question 654

What disposition would you make of any depreciation reserve account when constructing the balance sheet?

State your reasons for above answer.

Question 655

State whether depreciation is an element of the cost of manufactured products.

Question 656

In a cash book, in which all accounts paid by customers were entered at the gross amount and allowance, freight, etc., were treated as disbursements, and the net amount covered by the remittance was put in bank, and all cash book disbursements were covered by checks properly entered, you find that the cash book and bank balance agree. Explain how a shortage could actually exist under these conditions.

Question 657

A lumber company issues the following statement, and one of the stockholders submits it to you, as he cannot understand how 135,000 ft. sold at average of \$8.15 per M can produce a profit of \$380 with a cost of \$6.50 per M.

Make your report with reasons why the statement is in error and illustrate with a new statement of operation applying the inventories where they correctly belong at proper value, and showing the cost of each operation and the cost of the material as it works through from operation to operation.

PINE TOP LUMBER COMPANY
STATEMENT OF OPERATION—JUNE 1, 1913

INCOME		Average
Sales:		Cost
100,000 ft. rough lumber.....	\$750.00	\$7.50
35,000 " dressed "	350.00	10.00
	<hr/>	<hr/>
Total income.....	\$1,100.00	\$8.15
	<hr/>	<hr/>

EXPENSE		
Logging, 400,000 ft.....	\$1,200.00	\$3.00
Hauling to mill, 300,000 ft.....	300.00	1.00
Sawing at mill, 200,000 ft.....	300.00	1.50
Planing, 50,000 ft.....	50.00	1.00
	<hr/>	<hr/>
	\$1,850.00	\$6.50
Less: Inventory (estimated values):		
100,000 ft. logs in woods @ \$2.50	\$250.00	
100,000 ft. logs at mill @ 4.00	400.00	
50,000 ft. rough lumber @ 7.00	350.00	
15,000 ft. dressed lumber @ 8.00	120.00	1,120.00
	<hr/>	<hr/>
Cost	\$730.00	
Profit	370.00	
	<hr/>	<hr/>
	\$1,100.00	
	<hr/>	<hr/>

Question 658

A and B join in business and turn over to the new firm furniture:

A—\$2,000.00

B— 1,500.00

which leaves A an equity of \$500. A claims that B should pay him this amount because he (A) already owns the furniture and if the firm pays him it will be out of earnings or money to half of which he is actually entitled, and that he would actually and that he would virtually be paying himself, with his own funds, for something he now owns. B claims that payment by the firm is a correct settlement. Which one is right, and state your reason so clearly that no further doubt could remain with the other party.

Question 659

State how you would verify the Plant account for a concern that had been actively engaged in the manufacturing business for 20 years—the books not showing any credits to Plant account nor Reserve for Depreciation.

MASSACHUSETTS

Question 660

How do you ascertain the correctness of the issue of stock of a corporation? State the names of the books wherein such records are kept and tell how the books are opened and operated; also state what course you would advocate to prevent an overissue of stock.

Question 661

A corporation issued its note for \$30,000. The note became due during the term which you were auditing. A note for this amount, corresponding in all particulars with the note record, is submitted to you as evidence that the amount has been paid. Said note is marked "paid" but does not bear the signature, or paid stamp, of the bank to whom it is purported to have been paid. The treasurer asserts that possession, by the corporation, of this note is sufficient evidence of its payment. State, (a) your opinion thereof, and (b) your reasons.

Question 662

For several successive terms, a corporation has regularly deducted \$15,000 from its inventory of stock in process; the inventory prices being conservatively below market value. Then, for the quarter ended June 30, 1908, while following the same conservatism regarding prices, the \$15,000 deduction was discontinued, and the treasurer made his statement of earnings during the term, based upon

the inventory amount of stock in process. State, (a) whether you agree therewith; (b) the reasons for your agreement or disagreement; and (c) if you disagree with the treasurer's treatment of the matter, how you would deal with the item in your statement of the earnings and of surplus.

Question 663

In reporting to the Bank Commissioner on the condition of a corporation borrowing from savings banks, state briefly the extent to which you would verify each of the items usually found in the balance sheet.

Question 664

A water registrar, who handled all collections, and kept the books, but who was not allowed to sign checks, borrowed from the funds, and in the month of December in each year secured outside funds to replace the shortage, so that his cash was always found correct on December 31, date of closing.

He entered disbursements on the cash book under date of approval of same, and not on day of payment, so that his cash book never showed the true cash on hand, except in the last few days of the year.

Several auditors approved his accounts, until finally one of them discovered the trouble in the regular course of his work.

Why did the former auditors fail to detect the condition of affairs?

Question 665

In the general ledger of a corporation is a controlling account for the accounts receivable; the individual accounts relating thereto being kept in an accounts receivable ledger.

The balance of the controlling account is \$550,000. The total of the balances at the debit of the individual accounts is \$590,000; the total of the balances at the credit of the individual accounts is \$40,000. The corporation issues to banks, a balance sheet showing its accounts receivable as \$550,000. State, (a) whether you approve of same; (b) if you differ, what you would enter in the balance sheet; and (c) your reasons.

Question 666

In auditing the accounts of a corporation, what steps do you take to ascertain the correctness of its ledger accounts with a selling house?

Question 667

State fully how you would verify the bank account of a concern depositing with six banks, and making frequent transfers of funds between them.

Question 668

Of what value in auditing is a unit of production?

Question 669

A client (A. B. Co.) presents you the following statement as of January 1, 1912:

ASSETS		LIABILITIES	
Cash	\$10,600.27	Notes payable.....	\$20,000.00
Accounts receivable..	30,219.73	Accounts payable....	30,140.10
Merchandise	39,320.14	Profit and loss.....	5,000.04
Machinery	10,000.00	Capital stock.....	40,000.00
Loans to directors....	5,000.00		
	<hr/>		<hr/>
	\$95,140.14		\$95,140.14

You are required on January 10, 1912, to make sufficient examination and audit to certify the statement for credit purposes.

State fully how, and to what extent, you would verify the different items, and draw formal certificate covering same.

Question 670

A corporation takes from its customers their notes in partial settlement of their accounts. Some of these notes are discounted by the corporation, and with its unlimited indorsement. Notes Receivable account is credited with the notes discounted; and Interest account is charged with the discount. State, (a) your procedure in auditing the notes receivable transactions; (b) how you would ascertain what notes are not matured; and (c) how you would deal with the latter in the certificate of your audit?

Question 671

In auditing the accounts of a tax collector, what should be done to determine if he accounts for the interest on overdue taxes paid?

Question 672

You are auditor of a manufacturing corporation which has been operating five years and which has, amongst other accounts, the following, viz.: Plant account, \$700,000; Reserve for Depreciation, \$200,000; Surplus, \$100,000. The officers ask you to certify a statement embracing the above items in the following form, viz.: "Plant," \$700,000; "Surplus and Reserve accounts," \$300,000. State, (a) whether you approve same; and (b) the reasons supporting your answer.

Question 673

How would you audit the accounts of a tax collector?

Question 674

The officers and directors of a Massachusetts corporation have executed and submitted to you, for your signature as the auditor chosen under the provisions of the statutes, their certificate of condition, April 1, 1912. At the same time, the treasurer asks you to prepare the corporation's "Return" to the tax commissioner, April 1, 1912, showing, therein, valuations of the merchandise and accounts receivable which the treasurer claims to be fair cash values, but which are less than the respective amounts included in the certificate of condition. State what action you would take, (a) regarding the certificate of condition; (b) regarding the tax "Return"; and (c) the reasons supporting your answers.

Question 675

Your visit as auditor of the Iroquois Savings Bank of Pittsfield happens to be concurrent with that of the examiners from the Bank Commissioner's office. State in detail what modifications, if any, you would feel justified in making in the scope and thoroughness of your audit.

Question 676

A corporation has on its books \$210,000 of accounts receivable, of which \$49,000 are long overdue, and apparently worthless. The inventory of finished goods, taken at contract price, less 5%, amounts to \$124,000, and from this sum has been deducted \$45,000, "to provide for any losses."

How would you deal with this state of affairs in report-

ing to the Bank Commissioner on the condition of the corporation for savings bank loans?

Question 677

The "system of internal checking" of a savings bank calls for regular observance by the board of investment, whether the records of collateral received, and changes thereof, on loans, accord with the votes of the board. Under these conditions, and in the case of loans on collateral security, state, (a) whether you would write to each borrower to send you the details of the note, together with a list of the collateral deposited therewith; (b) whether you would ascertain the market value of the collateral; (c) what action you would take if you thought that the character of the collateral was inferior, or that the margin was insufficient. State, (d) whether you would restrict the extent of your general audit because of a high degree of excellence in the "system of internal checking"; and (e) the reasons supporting your answers.

Question 678

A corporation in closing its fiscal year has some 60 items of current liabilities, which it enters on its books as follows:

(Sundry accounts).....\$53,827.34

Accounts payable.....\$53,827.34

On the first day of the new year, the bookkeeper makes the following entry:

Accounts payable.....\$53,827.34

(Sundry accounts).....\$53,827.34

How should the auditor deal with this condition?

Question 679

You are instructed to audit the accounts of a corporation having the following assets: cash, accounts receivable, merchandise, machinery, real estate, expense paid in advance; and the following liabilities: accounts payable, notes payable, capital stock, reserve for depreciation of plant, reserve for sales discount, and taxes accrued.

To what extent would you consider it necessary to verify these items, and what reference to such verifications would you make in your report?

Question 680

After taking an inventory of the finished goods of a concern, it was found that all were not on hand that should have been.

Select some business with which you are familiar, and state what steps you would take to account for the discrepancy.

Question 681

In the verification of a bank account, would you ever check the list of paid checks returned by the bank, and, if so, what might you discover?

Question 682

A corporation has been accustomed to charge the purchase of machinery to the Machinery account at cost, and each year to charge the Manufacturing account and to credit a reserve for depreciation account with an amount which will offset the cost of the machinery by the time it is estimated that it will be advisable to scrap the machines. During the period that you have been employed to audit the account, you find that the corporation has sold two ma-

chines for \$500 each, and this amount has been credited to the Machinery account. One of them cost \$1,000, and the amount reserved for depreciation on this machine is \$600. The other cost \$1,500, and the amount reserved for depreciation is \$850.

Make the adjusting entries to correct the books.

Question 683

If you were auditing the books of a savings bank at the close of its fiscal year, how would you verify the cash book entries for loans on deposits which were made and repaid during the year?

Question 684

The engraved copper rolls used to print patterns on calico are inventoried by the concern at the market value of the copper in the rolls.

In your certificate to the Bank Commissioner should, (a) the amount be classified as part of the current assets, or as a portion of the plant items?

(b) State the reasons supporting your answer.

Question 685

A corporation in paying two bills, fastens the bills together, adds to the first bill of the two the amount of the second bill and sends these with a check for receipt. When returned, only the top bill is receipted. Do you consider this a valid voucher? If not, how could you satisfy yourself at the office of the corporation?

Question 686

A certified public accountant, having performed the duty at the close of several years, takes up for a year just

past, the examination of bonds—the property of an institution. At his last examination he found coupon bonds in three classes, registered as to principal, registered as to principal and income, and unregistered. In his examination of the books of account of the institution, he found that bonds had been bought during the year.

To make an efficient examination in the most expeditious way, how might he treat these various classes?

Question 687

It was the custom of a treasurer to print and circulate an annual report covering the transactions of the year, and a statement of condition. A "Profit and Loss Account" was stated in substantial detail; that is, stating the balance at beginning of the year, and adding or deducting such items as the result of transactions required. The books and the treasurer's account were examined by a certified public accountant, and on the printed report in addition to the treasurer's name there usually appeared "Examined and Approved," followed by the name of the accountant as such. The examiner also usually gave a formal certificate of examination. The examination for a certain year shows the books of account to be correct as a record, and payments were vouched; but the treasurer not only changed the "make-up" of the "Profit and Loss Account" by including items not before included (among which was an arbitrary increase in value of real estate), but also omitted to mention these items, and stated the "Profit and Loss Account" as a single general amount. The examiner objected but was overruled.

What action should the examiner take? Give a reason for your answer.

Question 688

A. B. is a heavy speculator on margin on the stock exchange, buying and selling in numerous transactions a large variety of securities. His broker, C. D., renders him monthly a statement of transactions and an account current.

State the steps you would take to completely audit C. D.'s monthly account current and statement.

Question 689

The Citizens Relief Association prints stamps of various denominations ranging from 5 cents to \$1. The bulk of them remain in the custody of its treasurer. He supplies a limited quantity of them to the manager, who from time to time issues them to benevolent persons in exchange for their face value in money. This money is retained in the manager's office to cash stamps presented by applicants for aid.

How would you audit this phase of the association's activities?

NORTH CAROLINA

Question 690

(a) What support would you require in the case of a corporation purchasing its own stock at a premium or discount? (b) State how the transaction should be treated on the books.

Question 691

(a) In case of the absence of a voucher system, and there are no supports for disbursements except book entries or cancelled bank checks, state how you would satisfy yourself that the disbursements represented proper and regular transactions.

(b) State how you would satisfy yourself of the regularity and correctness of a pay-roll that was not signed by payees.

Question 692

In what manner could there be a shortage of cash, when all receipts had been regularly entered, and the cash book and bank accounts reconciled, and how detected?

Question 693

With what special reference should capital expenditures be examined?

Question 694

What are the distinctive features in the support of the disbursements in governmental accounting?

Question 695

Under what conditions can the additions of the cash book be verified without actually adding same, and state the advantages?

Question 696

To what extent is it necessary to verify the classification of expenses?

Question 697

In an audit of a set of books provided with proper controlling accounts, to what extent would you check ledger postings?

Question 698

In the audit of the books of a corporation, covering a period of three years, for a bond house contemplating the placing of a large issue of bonds, to what particular points would you direct your special attention?

MAINE

Question 699

In your judgment should or should not a state auditor be required by law to be the holder of a C. P. A. certificate? Give your reasons fully.

Question 700

You are called to audit a savings bank in Maine, and find that said savings bank is carrying commercial accounts; that is, accounts subject to check, on which no interest is being paid. You also ascertain that the State Bank Examiner is fully aware of this fact and that he has allowed said savings bank to continue to carry this class of accounts. What would you consider it your duty to report concerning this particular matter to the trustees and depositors? Would you consider it your duty at all to advise with the State Bank Examiner relative to the matter?

Question 701

In making an audit of a Maine corporation you find that its assets, as a going concern, exceed its liabilities by only a few thousand dollars. You also discover that the corporation, in direct violation of the National Bank Act, is borrowing, under different names and indorsements, much more than 10% of the bank's combined capital and surplus from a national bank with which it does business. Would you consider it your duty to bring this fact to the attention of the bank? Or to the attention of the Bank Examiner? State your reasons fully.

Question 702

A Rockland, Maine, corporation, incorporated under the general law of Maine, acquires several plants that are found to be run down and in poor condition, and they require extensive outlay for repairs and renewals to bring them to the required state of efficiency. Should outlay be charged against capital or against revenue? Give your reasons fully.

Question 703

Explain the various measures you would adopt to verify whether or not all cash received has been duly accounted for on the books of the concern you were auditing.

Question 704

A balance sheet audit discloses satisfactory conditions with the exception of insufficient allowance for losses in collection of accounts receivable. In case your client should not consent to adjustment, draft form of certificate that would be proper under the circumstances.

Question 705

Outline working papers and office records necessary to handle detailed semiannual audit of a wholesale mercantile house.

INDEX

(References are to question numbers)

A

- Acceptances
 - and bad debts account, 135
 - dishonored, evidence of, 135
 - in bills receivable balance, 136
 - of bills due consignor, 304
- Accountancy
 - ethics of, 270
- Accountant
 - distinguished from bookkeeper, 522
 - public, 522
- Accounts
 - assigned and concealed, 306
 - audit of general ledger, 597
 - branch, in head office books, 645
 - construction, bond discount charged to, 608
 - controlling ledger, 105
 - customers', verification of, 607
 - differentiation of, 44
 - horse and wagon, 643
 - income and expenditure, 114
 - partnership, 103
 - payable, discounts on, 152
 - receipts and payments, 114
 - revenue and expense, Interstate Commerce Commission requirements, 638
 - significance of balances, 44
 - technical errors in, 183
- Accounts receivable
 - auditor's view of, 428
 - bad, how determined, 8
 - checking against controlling account, 576
 - how written off, 558
 - kept in sub-ledger without control, 555
 - not verified, 290
 - of long standing, 558
 - on balance sheet, 54
 - overdue and worthless, 676
 - past due in suspense account, 474
 - reserve for bad, 510, 704
 - suspense, 281
- Accrued interest (See "Interest")
- Administrator (See "Executor")
- Advertising, how written off, 629
- Agent, life insurance
 - report, audit of, 272
- Agent's accounts, corrections in, 131
- Allowances
 - on merchandise returned, 233
 - verification of, 106
- Amortization of manufacturing plant debt, 388
- Appraisals, should auditor accept, 604
- Assets
 - bills receivable, 11
 - commissions as, 98
 - correct valuation of, 6
 - depreciation of, 27, 111
 - fixed and current, 640
 - manufactured goods, 11
 - objection to grouping, 651
 - open accounts, 11
 - overvaluation of, 548
 - proof of existence, 478
 - proof of value, 478
 - proper grouping of, 651

(References are to question numbers)

- Assets—continued**
 raw materials, 11
 stocks, bonds, etc., 11
 unusual, 143
- Audit**
 advantages of, 483
 after closing books, 562
 balance sheet, 593
 bank, when to begin, 249
 cash, 212, 513, 593
 classes of, 513
 concealed accounts, detection of, 306
 continuous (See "Continuous Audit")
 differs from investigation, 593
 disbursements, 180
 disposition of
 charges to plant, 475
 commissions, 475
 discounts, 475
 organization costs, 475
 premiums, 475
 distinguished from examination, 335, 346
 first, 2, 257
 for ascertaining profits of certain period, 488
 for limited period, 225
 for purchaser, 532
 from cash book and journal only, 110
 from invoices and vouchers, 110
 general course of, 526, 578
 kinds of, 175, 513
 machinery, 53
 merchandise, 53
 objects of, 12
 of agency accounts, 77
 of bank, 578, 612
 of capital account, 588
 of cash, 177, 277
 of city clerk's office, 578
 of coal mining company, 612
 of county treasurer's office, 578
 of dry goods store, 181
 of familiar business, 334
 of iron manufacturing plant, 185
 of lumber company, 612
 of machinery, 87
 of mercantile house, 578
 of outstanding accounts, 189
 of partial payment accounts, 228
 of partnership accounts, 103
 of pass book, 70
 of personal accounts in general ledger, 97
 of premium on lease, 475
 of real estate, 53, 168
 of revenue account, 588
 of securities, 177
 of stock broker's books, 245, 612
 of trustee's accounts, 103
 of unfamiliar business, 250, 584
 requirements of, 523
 semiannual, 39, 258
 single-entry, 71
 valuation of machinery, 53
 valuation of merchandise, 53
 valuation of real estate, 53
 verification of inventory, 241
 what constitutes an, 108
 without cash book, journal, or ledger, 149
 without subsidiary ledgers, 161
- Audit, complete**
 distinct from continuous, 513, 594
 for brass foundry, 620
 for electric light company, 620
 for dry-goods store, 620
 of general ledger, 598
- Auditing procedure, 526**
- Auditor**
 acting for opposing parties, 280
 action on proposition, 523

(References are to question numbers)

Auditor—continued

- as regular employee, 476
- certificate of (See "Certificate")
- co-operation with local accountant, 261
- criticism of management, 352
- failure to discover fraud, 664
- instructions for cashier, 477
- protection against imposition, 213
- relation to clients and bookkeeper, 347
- report of (See "Report")
- test of ability, 69

Auditor's duties

- as to appraisals, 604
- as to certificates, 91, 124
- as to cost values and depreciation, 157
- as to depreciated machinery, 411, 624
- as to depreciated real estate and other values, 416, 624
- as to errors in closed books, 583
- as to good-will, valuation of, 155
- as to instructions, 519
- as to loans, doubtful debts and good-will, 411
- as to manufacturer's inventory, 512
- as to minutes of corporation, 417
- as to missing stock certificate, 169
- as to report on net profits, 78
- as to secret reserves, 170
- as to statement of condition of business, 323
- as to stock inventories, 480
- as to theories of examination and certification, 479, 591
- as to validity of transactions, 88

- as to value of outstanding stock, 158
- in absence of current records and trial balance, 76
- in confidential and personal matters, 347
- in England and America, 561
- in first audit, 2
- when not allowed to inspect all branches, 167

Auditor's responsibility for

- certificates, 52
- depreciation allowances, 10, 138
- discounts, 10
- inventories, 10
- omitted items in audit, 458
- pay-rolls, 10

Auditor, State

- qualification of, 699

Automobile concern

- acceptances unpaid in inventory, 298
- audit of, 406
- goods in warehouse omitted from inventory, 298
- inventory and agents' accounts, 406

B

Balance sheet

- and trial balance, 49
- assets and liabilities, 186
- betterments, 1
- certification of, 196
- certification of assets, 441
- certified for credit purposes, 635
- certified form of, 432
- correct annual income in, 47
- correctness, how tested, 33
- cumulative dividends unpaid, 120
- depreciation of plant in, 90
- doubtful debts in, 40

(References are to question numbers)

Balance sheet—*continued*

enhanced values of property in,

34

example of, for criticism, 516

expenditures in, correct annual,

47

form and arrangement of, 599

influence on stock sales, 288

interest paid, 90

items of fact or of opinion, 450

items omitted from, 459

leases, how treated in, 41

liabilities in, 204

losses on collections in, 262

maintenance and repair items, 1

mortgage bonds in, 173

partners' accounts in, 72

payments for work in process

in, 32

premiums unpaid, 119

preparation without closing ac-

counts, 436

proof of assets, 478

revision after certification, 81

unexpired insurance in, 90

unsold goods in, 79

with supporting schedules, 263

Bank account

deposits with banks, 667

verification of, 667, 681

Bank balance, correctness of, 142

Bank commissioner

auditor's report to, 676

co-operation with auditor, 675

Bank pass book

as voucher for cash book entries,

70

for audit purposes, 70

Bank, private

audit of unpaid checks charged

to depositors, 89

liability for unrecorded certi-

ficates of deposit, 464

Banks

audit of, 25, 194

audit of national, 354

books for national, 399

collateral loan department of,

396

inspection of securities, 64

loans from savings, 663

overdrafts on, 174

reconciliation account for checks

outstanding, 129

reports of national, 354

reports to bank commissioner,

663

safeguards against fraud, 379

time of beginning audit, 249

verification of balance, 58

verification of partial payments,

462

Bank teller

cash shortage of, detection, 221

"proof" of, 291

Beneficiaries, audit in interest of,

137

Betterments and renewals

as affecting profits, 321

average profits, effect on, 36

how charged, 163

in balance sheet, 1

in profit and loss account, 1

items chargeable to, 324

of public service corporation,

232

replacing old machines, 588

Bills payable

analysis of account, 256

assumed by corporation, 164

Bills receivable

as securities, 19, 585

at end of fiscal period, 133

audit of, 104, 133

discounted, 86

fraud by substitution of, 275

(References are to question numbers)

- Bills receivable—*continued*
 - indorsed and discounted by firm, 670
 - on balance sheet, 54
 - overdue and dishonored, 319
 - verification of, 135, 585
 - Bills, validity of receipted, 685
 - Bonds
 - audit contemplating issue of, 698
 - average interest rate on, 531
 - collateral trust, 355
 - commission on, 96, 98
 - debenture and mortgage, 569
 - discount on, 377
 - entries for sale of, 377
 - given as security, 412
 - income, 355
 - mortgage, 355, 569
 - of insurance companies, 197
 - of other companies, 320
 - of trust company, 353
 - on balance sheet, 28, 54
 - periodic purchase payments, 531
 - redemption of in ten drawings, 505
 - treatment in profit and loss account, 505
 - value as affected by interest, 540
 - verification of, 611
 - Bonds, construction
 - discount on, 59
 - entry for discount or premium on, 443
 - expense of sale, 59
 - Bonds, coupon
 - audit of purchases, 686
 - registered and unregistered, 686
 - verifying interest payments, 563
 - Bonuses, as salary, 37
 - Book values (See "Values")
 - Bookkeeping, separate ledger balances, 48
 - Brazil, exchange accounts on, 504
 - Brewery, inventory and sales, 460
 - Brick plant, liability for restoration of real estate, 348
 - Brokerage business, dividends on inflated securities, 520
 - Brokerage on investment purchase, 588
 - Broker, merchandise
 - audit of brokerage due, 564
 - audit of shipments not made, 564
 - Broker, monthly statement of, 688
 - Broker, stock, doing banking business, 341
 - Broker, stock exchange
 - audit of books of, 245
 - balance sheet of, 400
 - Building and loan association
 - audit of books of, 115
 - audit of mortgages, 318
 - auditor's statement for, 605
 - examination of accounts, 331
 - Business
 - accounts of departmental, 337
 - apportionment of profits after sale, 494
 - audit for prospective purchaser, 458
 - audit of books for sale of, 428
 - basis of sale, 18
 - examinations for purchaser, 381
 - vendor's statement, 381
- C
- Calico printing concern
 - inventory of copper rolls, 684
 - report on, for bank commissioner, 684
 - Capital account
 - expenditures for, 73
 - items chargeable to, 42, 96
 - Capital expenditures (See "Expenditures")

(References are to question numbers)

- Capital stock
 - balance sheet to effect sales of, 288
 - premium on, 160
- Car building company
 - inventory of cars under construction, 630
 - inventory of castings, 630
 - inventory of raw material, 630
- Car trust notes, in balance sheet, 204
- Cash
 - audit of, after close of fiscal year, 104
 - audit of, defined, 212
 - audit of receipts and payments, 200, 314, 594, 703
 - audit of, when complete, 277
 - audit of, when not deposited, 314
 - checking pass book and deposits, 16
 - detection of shortage, 55, 221, 692
 - net investment certified, 650
 - omission of entries, 5
 - payments, audit of, 7, 200
 - prevention of false accounts for, 511
 - shortage in, 55, 221, 656, 692
 - speedy audit of, 201
 - verification of, 101
- Cash book
 - agreement with bank balance, 656
 - and bank pass book, 235
 - and journal, 134
 - disbursement items in, 656
 - erroneous entries in, 486
 - gross entries of receipts in, 656
 - how verified, 85
 - of absconding cashier, 533
 - partial and complete audit of, 514
 - problem of shortage in, 656
 - reconciled with bank balance, 692
 - three-column form of, 486
 - verified without adding, 695
- Cashier, irregularities in books, 276
- Certificate, auditor's
 - correct form of, 91, 230, 492
 - for building and loan association, 605
 - for company's prospectus, 493
 - for layman unacquainted with business, 574
 - for mercantile agency, 327
 - of balance sheet of grocer, 574
 - of correctness of balance sheet, 621
 - of net earnings for ten-year period, 126
 - of net earnings of manufacturing company, 610
 - qualified form of, 179
 - qualifications in, 290
 - to balance sheet, 290
 - valid form of, 124, 178
- Certified public accountants
 - audit in interest of retired partner, 457
 - employment as auditors, 476
 - prepared balance sheet submitted for approval, 623
- Charitable organization
 - collectors' accounts, 171
- Check book for audit purposes, 26
- Checking
 - five methods of internal control, 644
 - for prevention and detection of frauds, 644
 - gas company accounts, 365

(References are to question numbers)

- Checking system
 - for general journal, 215
 - for purchase journal, 215
 - for savings bank, 677
- Checks
 - as vouchers, 60, 141
 - listed on deposit tickets, 580
 - list of returned, 681
 - paid, audit of, 223
 - shortage in canceled, 573
 - unpaid, audit of, 68
- Chemical manufacturing company
 - audit of, 410
 - patent rights of, 410
- Clearing house
 - bank, 361
 - stock exchange, 361
- Club
 - accounting method as check on
 - loss of goods, 545
 - initiation fees in annual report, 454
 - monthly audit of, 535
 - monthly statement of treasurer, 453
 - prevention of dishonesty in, 535
- Coal mining company
 - bond issue, 367
 - books, audit of, 420
 - profit and loss account, 403
 - reserve fund for redemption of
 - bonds, 367
 - segregation of accounts, 420
 - sinking fund for bond redemption, 403
 - trial balance, 420
 - valuation of leasehold, 498
 - valuation of plant as freehold, 498
- C.O.D. business, accounting system for, 404
- Collateral, bank loan department, 396
- Collateral trust bonds, in balance sheet, 204
- Collector of taxes, audit of accounts of, 671, 673
- Commission house, audit of, 344
- Commission on economy and efficiency, 542
- Commissions, paid for selling stock, 588
- Complete audit (See "Audit, Complete")
- Comptroller of currency, bank report to, 354
- Consignments, 596
- Consolidation (See "Merger")
- Construction accounts
 - items chargeable to, 21
- Construction bonds (See "Bonds, Construction")
- Construction companies
 - profits on unfinished contracts as revenue, 159
 - unfinished contracts in balance sheet, 448
- Contingent claim, effect on audit, 496
- Contingent liability (See "Liability, Contingent")
- Continuous audit
 - advantages and dangers, 483
 - distinguished from complete, 513, 594
- Contracts
 - adjustment of unfinished, 405
 - profits on, in revenue account, 159
- Contractors
 - losses in cost ledger, 302
 - closing books of, 383
 - profit of, 190
- Controlling accounts
 - checking ledger postings, 697
 - use to auditors, 105

(References are to question numbers)

- Copartnership
 - capital unpaid, 299
 - interest credits, 299
 - Corporation
 - audit of, for bond sale, 456
 - audit when business is large, 29
 - balance due president in balance sheet, 456
 - books, audit of, 191
 - books, initial entry, 191
 - books to be audited, 61
 - branches, audit of, 260
 - constructing plant from proceeds of stock sales, 429
 - expenditures of, 96, 144
 - first audit, 9, 62, 572
 - general audit of, 679
 - merger of, 267, 294, 307
 - officer interested in purchases, 218
 - officials, salaries of, 57
 - preliminary expenses of, 613
 - proceeds of sale of assets, distribution of, 433
 - profits from absorbed company, 485
 - purchasing own stock, 690
 - stock ledger of, 82
 - "sundry accounts" entry, 678
 - transfer book, examination of, 166
 - Corporation accounts, shares at discount, 45
 - corporations controlled by holding company, 330
 - Corporations, financial
 - methods of valuing securities, 445
 - Cost accounting of manufacturing association, 345
 - Country store, trading orders for merchandise, 467
 - Coupon bonds (See "Bonds, Coupon")
 - Credit
 - application for bank, 386
 - application of manufacturing company, 628
 - application of trading concern, 440
 - Cumulative dividends, unpaid in balance sheet, 120
 - Currency, accounts for fluctuation of, 296
 - Customers' accounts, 607
- D
- Debts
 - doubtful, 40
 - writing off bad, 549
 - Decedent's estate (See "Estate")
 - Defalcations (See also "Fraud")
 - by absconding cashier, 533
 - by bookkeeper, 268
 - by cashier, 268, 276
 - by manipulating books, 308
 - detection of, 51
 - of grocery house cashier, 626
 - of trading house manager, 362
 - through cash book balances, 533
 - through false entry to profit and loss, 573
 - Deficiency, created by depreciation, 206
 - Department store
 - accounting system for, 404
 - sales checks, audit of, 316
 - Depositors ledger, 222
 - Deposit slips, use of in audit, 580
 - Depreciation
 - and cost values, 157
 - as cost element, 425, 655
 - book entries for, 425
 - charged to reserve funds, 434
 - deduction for, 27

(References are to question numbers)

- Depreciation—*continued*
 diminished reserve for, 503
 furniture and fixtures, 111, 145
 in an electric lamp company,
 293
 in balance sheet, 90, 425
 in railroad accounts, 407
 methods of allowance for, 636
 of assets, 27, 111
 on absorbed company's plant,
 325
 on buildings, 127
 on efficient premises and plant,
 442
 on machine shop, 128
 on manufacturing supplies, 338
 on plant and machinery, '65, 66,
 111, 127, 145, 575, 600
 relation to bonus stock, 165
 reserve for, 242, 489
 reserves for in balance sheet,
 654
 Deterioration (See "Deprecia-
 tion")
 Disbursements
 audit of, 180, 313
 from cash receipts, 603
 in governmental accounting,
 694
 of manufacturing company, 313
 vouchers for, 691
 Discounts
 as affecting inventory, 375
 book entry for, 443
 cash, on purchases, 465
 check on, 100
 entries for, 631
 how verified, 106
 on mortgage bonds, 107
 on outstanding accounts, 189
 on sales of stock and bonds, 470
 on securities, 139
 reserve for, 510
 trade and cash, 639
 Dishonesty (See also "Fraud,"
 "Theft," "Defalcation")
 of cashier, 193
 Dividends
 accrued, book entry for, 588
 and depreciation reserve, 434
 at expense of depreciation re-
 serve, 509
 cumulative, 120
 from general surplus, 220
 from stock premiums, 217, 266
 in excess of profits, 338
 method of checking when paid,
 216
 on common and preferred stock,
 471
 on profits from rising market,
 499
 on sole basis of receipt and dis-
 bursement statement, 156
 paid from surplus, 338
 without formal declaration, 333
 Drafts, payment by, 226
 Dry-goods concern
 audit of, 181
 commissions of salesmen, 521
 expenses of salesmen, 521
 ledger balances, 48

E

 Earnings
 of electric lighting companies,
 321
 of gas companies, 321
 of railroads, 321
 omitted from profit and loss, 146
 Earnings, net
 correct statement of railroad,
 20
 how determined, 112
 of past periods, 126

(References are to question numbers)

- Electric lighting plant
 accounts and records of, 378
 classification of accounts, 527
 depreciation of, 293
 earnings of, 321
 examination of accounts, 328, 378
- Embezzlement
 audit in case of, 80
 by bookkeeper, 308
 by bookkeeping cashier, 435
 by cashier having access to books, 491
 detection in bank, 326
 in jobbing house, 435
 methods of detection, 491
- Equipment, book entries when destroyed, 22
- Errors in merchandise returned, 233
- Estate of decedent
 assets, audit of, 431
 audit of principal and income, 343
 distribution of, 343, 373
 funds with trust company, 322
 mortgage holdings, 373
 sale of rights or warrants, 373
 stock and dividends as part of, 393
- Ethics, accountancy, 270
- Examination
 distinguished from audit, 335, 346
- Exchange
 effect of variation, 484
 on China, 484
- Executors
 audit of books of, 447
 final accounting of, 392
 statement for probate court, 392
- Executor's accounts
 audit of, 130, 187
- documents for audit of, 147
- Expenditures
 capital and revenue, 73, 96, 121
 taken from profits, 493
 treatment of corporation, 96
- Expenditures, capital, 693
 for charitable institution, 102
 for gas company, 102
 for manufacturing company, 102
 when closed to profit and loss, 30
- Expense
 charged to "improvements," 30
 charged to manufacturing account, 148
 classification of, 696
 omitted from profit and loss, 146
- Export trade
 investigation of fraud in, 413
- F**
- Factor's accounts, interest on, 303
- Fiduciary accounts, audit of, 198
- Finished goods, inventory of, 676, 680
- Fluctuation
 of currency, 296
 of prices of materials, 556
 of real estate values, 556
 of stock and bond values, 556
- Footings and postings
 of controlling accounts, 697
 prevention of fraud in, 579
- Fraud
 failing to record sales, 236
 in bills receivable account, 275
 in books of water registrar, 664
 in cash accounts, 511, 577, 642
 in factory pay-rolls, 234
 in merchandise accounts, 642
 in payment of wages, 17

(References are to question numbers)

Fraud—*continued*
 in pay-rolls, 176
 in purchase invoices, 501, 577
 of grocery house bookkeeper,
 557
 organization favoring, 268
 prevention of in bank, 379
 prevention of in pay-rolls, 577
 prevention of through checking,
 644
 through cash book, 308
 through time sales, 315

Freehold of coal company, 529

Freight
 entries for, 631
 entry in profit and loss, 600
 Furniture of partnership, 658

G

Gas companies
 audit of amounts due from cus-
 tomers, 94
 betterments and operating ex-
 penses of, 324
 capital expenditures of, 102
 classification of accounts, 527
 depreciation charges, 206
 earnings of, 206, 321
 examination of accounts, 328
 writing assets up or down, 207
 Going concern, good-will of, 195
 Goods on approval, treatment in
 statements, 154

Goods on consignment
 audit of, 79
 book entries, 31

Goods unsold, audit of, 79

Good-will
 account with, 92
 definition of, 524
 effect of writing off, 202
 in annual statement, 92
 in taxation statement, 155

of acquired company, 274
 of corporations, 524
 of going concern, 195
 of subsidiaries, 203
 value of, 153
 when profits are good, 274
 Grocery house (wholesale)
 audit of accounts after a fire,
 438
 audit of falsified books, 557
 audit of profit and loss account,
 570
 cashier's defalcation in, 626
 Guarantors, payments by, 209

H

Hardware manufacturing concern,
 audit of, 376
 Haulage, entries for, 631
 Holding company
 accounts of subsidiaries, 446
 accounts receivable of merged
 companies, 208
 audit of books of, 446
 certified balance sheet for, 446
 statement of condition, 634
 Hosiery company, audit of, 397
 Hotel, monthly statement for
 dining and wine room opera-
 tions, 560

I

Ice company
 accounts requisite for audit of
 earnings, 541
 advanced sales of coupons, 541
 Importing and trading company
 accounts with foreign custom-
 ers, 537
 certificate of correctness of
 books, 297
 fall in exchange values, 504
 statement of affairs, 363

(References are to question numbers)

Income

- added to profits, 493
- as offset to paper losses, 490
- auditor's report on, for bank, 627
- directors' report on, for bank, 627
- from invested reserves, 502
- percentage statement, 265

Income bonds, in balance sheet, 204

Incorporation, preliminary expenses of, 588

Indorser, liability of, 86

Industrial corporation, examination of accounts, 329

Inflation of profits, 301

Injuries, personal claims for, 586

Instalment sales

- audit of uncompleted sales, 552
- of real estate company, 552
- of sewing machine agencies, 552

Insurance

- adjustment for unexpired, 602
- audit of, 289
- entry in profit and loss statement, 600
- in balance sheet, 90
- on merchandise, 271
- policies, audit of, 238
- premiums paid in advance, 588
- unexpired, after fire loss, 481
- unexpired, in balance sheet, 459

Insurance companies

- audit of, 25
- bonds and premium values for balance sheet purposes, 28
- mutual and stock forms of, 358
- securities account of, 172
- stock and bond transactions, 197
- valuation of risks, 382

Interest

- accrued as part cost of investment, 588
 - accrued, audit of, 248
 - advanced on discounted notes, 459
 - as affecting bond values, 540
 - as affecting earnings, 18
 - as part of cost, 543
 - average rate on stock investment, 536
 - in balance sheet, 90
 - on advances by stockholders, 495
 - on bonds bought at premium, 14
 - on undrawn credit balance, 333
- Interstate Commerce Commission
- rules as to depreciation, 394, 407
 - rules as to replacement and equipment, 240
- Inventor's royalties, audit of, 292
- ## Inventory
- agreement with cost records, 287
 - approximate, after fire, 438
 - auditor's view of, 566
 - correctness of, 423
 - cost or market price in, 188, 590
 - effect on, of later collections, 508
 - of corporation assets, 433
 - of finished goods, 676, 680
 - of grain company, 635
 - of manufacturer's stock, 512
 - of paper company, 625
 - of orange grove, 566
 - of real estate company, 566
 - of steamboat company, 566
 - of stock in process, 662
 - of stocks, 24
 - of wholesale grocer, 566
 - real estate in, 219
 - validity of prices, 432

(References are to question numbers)

Inventory—*continued*

- verification of, 151
- Inventory, perpetual
 - acceptance for balance sheet, 387
 - advantages and disadvantages, 567
 - definition of, 387
 - how kept and verified, 387
- Investments in qualified balance sheet, 290
- Invoices
 - checking of, 117
 - not inventoried, nor on books, 615
- Iron manufacturing plant, audit of books, 185

J

- Jobbing accounts, single-entry system, 295
- Jobbing business
 - auditor's report on embezzling bookkeeper, 435
 - discount account of, 465
 - organization of, 295
- Job orders, 427
- Journal
 - checking system for, 215
 - detecting false accounts, use in, 229
 - functions of, 134

K

- Kiting, 239

L

- Labor as profit and loss item, 600
- Lead company, certificates of sale in balance sheet, 285
- Leased property, entries for expenditures on, 205
- Leasehold of coal company, 529

Leases

- as assets, 305
- asset value of, 430
- audit of unexpired, 389
- in balance sheet, 41
- in profit and loss, 41
- methods of writing off, 389
- of railroads, 205
- premium for, 588
- rent of prepaid, 390
- Ledger accounts
 - audit of, 666
 - balance sheet audit of, 597
 - verification of, 598
- Ledger, cost
 - concealed losses in, 302
 - of manufacturing concern, 300
- Ledger, depositors
 - loose-leaf form, 222
- Ledger, forms of, 550
- Ledger, general
 - controlling accounts in, 665
 - departmental accounts in, 337
- Ledger, loose-leaf
 - for depositors, 222
 - objection to, 222
- Ledger, stock
 - verification of, 82, 255
- Ledgers, subsidiary postings, 224
- Letter of firm to auditor, 487
- Liabilities
 - correctness of, 13
 - in balance sheet, 204
- Liability, contingent
 - definition of, 649
 - examples of, 649
 - in balance sheet, 649
- Life insurance
 - of company's manager, 518
 - premiums charged to disbursements account, 518

(References are to question numbers)

- Life insurance agent (See "Agent")
- Life insurance company
 - apportionment of premiums, 539
 - assets and liabilities of, 380
 - premium accounts, 539
 - purchase of agent's interest, 284
 - revenue and expense accounts, 380
- Loans
 - security for, 173
 - shares and bonds as security for, 412
- Locomotive plant, 351
- Loss and gain account, reflecting fluctuating values, 95
- Losses
 - fire, adjustment of, 289, 641
 - obscured by dividend payments, 509
 - on collections, 262
- Lumber company
 - book value of stumpage, 521
 - depreciation accounts of, 418
 - renewals and betterments of, 418
 - report on operations and inventories, 657
 - statement to stockholders, 657
- M**
- Machinery and tools
 - audit of, 53, 449
 - cost entries for, 682
 - depreciation of, 682
 - in locomotive plant, 351
 - sales of, credited to merchandise, 503
- Machine shop, depreciation of plant, 128
- Maintenance and repairs
 - charged against revenue, 575
 - dividends and, 182
 - how charged, 163
 - in balance sheet, 1
 - in profit and loss account, 1
 - reserve for, 242
- Manufacturing accounts
 - balance of, 44
 - expense chargeable to, 148
- Manufacturing concerns
 - accounting system of, 368
 - accounts for expenses, 369
 - appraisal of real estate of, 370
 - audit of, 25, 357, 368, 672
 - audit of hardware, 376
 - audit of hosiery company, 397
 - average profits of, 35
 - balance of cash discount account in, 465
 - balance sheet of, 359
 - bond sales at discount, 470
 - certificate for annual report, 395
 - certificate of profits, 370
 - classification of accounts, 527
 - cost accounts of, 345
 - cost ledger of, 300
 - depreciation of plant, 65, 66, 370
 - examination of accounts, 329, 370
 - expense distribution in, 369
 - general audit of, 414
 - inventories, 188
 - net profits of, 38, 78
 - profit and loss statement of, 600
 - purchase of raw material, 371
 - report of auditor on, 359
 - sales of old machinery, 43
 - stock sales at discount, 470
 - trial balance of, 414
 - voucher for wages, 99
- Manufacturing cost
 - salaries chargeable to, 56

(References are to question numbers)

Manufacturing cost—*continued*
 wages chargeable to, 56
 Mercantile house
 locating accounting errors, 576
 market value of real estate, 565
 profit and loss account in, 162
 trading accounts in, 162
 Merchandise
 audit of, 53
 correcting entries for unsold,
 131
 entries for consignments of,
 596
 in bond and warehouse, 298
 test of credits for, 55
 verifying account with, 264
 Merger
 good-will value in case of, 437
 of coal, fuel, and lumber con-
 cerns, 420
 of companies, 267, 294, 307
 report for prospective, 247
 Milling company, special features
 in audit of, 647
 Mines and quarries, depreciation
 of, 528
 Mining company, depreciation of
 wasting assets, 415
 Minute book, use to auditor, 311
 Misappropriation (See "Fraud"
 and "Theft")
 Mortgage bonds
 discount on, 107
 in balance sheet, 204
 premium on, 107
 Mortgages
 canceled or fictitious, 318
 cost of giving, 96, 588
 guard against duplicate, 546
 how verified, 611
 on Florida real estate, 546
 Municipal corporations
 accounts of, distinguished from

 private accounts, 360
 audit of accounts of, 384
 books, audit of, 342
 building operations of, 571
 expenditures of, 109
 payments, audit of, 109
 receipts and disbursements of,
 360

N

National bank (See "Banks")
 National Bank Act, 701
 Net profits, determination of, 46
 Notes
 extended beyond datings, 554
 legal evidence of payment, 661
 Notes receivable (See "Bills Re-
 ceivable")

O

Obsolescence
 of manufacturer's stock, 512
 of street railway equipment, 472
 Opening entries, how verified, 62
 Operating expenses, amounts
 chargeable to, 324
 Operations
 percentage statement, 265
 special accounts, 646
 statement for, 646
 Organization expenses as assets,
 192
 Outstanding stock, accounts, etc.
 (See "Stock," "Accounts,"
 etc.)
 Overdrafts of doubtful value, 174

P

Paper and pulp company, inven-
 tory, 625
 Parent company
 accounts with subsidiaries, 614
 balance sheet of, 210

(References are to question numbers)

- Parent company—*continued*
 consolidation of accounts with subsidiaries, 616
- Partial payments, theft in connection with, 462
- Partnerships
 adjustments on dissolution, 538
 admitting new partner, 409
 debits and credits in, 340
 debits for furniture, 658
 dissolution of, 405
 division of profits, 340
 documents for audit, 103
 interest on capital, 46
 interest on capital advances, 473
 investigation or retirement or
 death of partner, 633
 items for audit, 503
 ledger accounts, audit of, 116
 manufacturing accounts of, 503
 papers, use to auditor, 312
 partners' accounts in balance
 sheet, 72
 partner's additional capital, 50
- Patents
 accounts with, 385
 as an asset, 497
- Payments, average date of, 534
- Pay-rolls
 concealing fraud, 176
 correctness of, 691
 debited to plant, 231
 fraud in, 234
 of textile mill, 372
 verification of, 151, 402
- Percentage, use of in presenting reports, 265
- Perpetual inventory (See "Inventory, Perpetual")
- Piece rate, in textile mill, 372
- Plant
 account with in absence of depreciation reserve, 659
 additions to, 421, 424
 enhanced values, book entries for, 34
 enhanced values, treatment of, 282
 entries for cost of, 429
 maintenance and repair charges, 587
 outlays for, 163
 pay-roll charges to, 231
 repairs charged to, 182
- Postings (See 'Footings,' etc.)
- Preferred stock (See "Stock")
- Premiums
 accounting entries for, 547
 bond, 107, 443
 bond, entry for, 443
 life insurance, 284
 on company stock, used for dividends, 160, 217, 266
 on proprietary article, 119
 on securities, 139
- Price, selling
 contingent on market price, 285
- Prior periods, as affecting audit, 191
- Profit and loss
 arising from assets and liabilities, 143
 balance of, 44
 classifying items, 251
 enhanced values in, 34
 entries for real estate values, 595
 entry for incompleting work, 482
 example of account for auditor's revision, 506
 expenditures debited to, 47
 fluctuating assets in, 253
 from contingent claims, 586
 from depreciation, 586
 from interest accrued, 586
 from stock and bond purchases, 325

(References are to question numbers)

- Profit and loss—*continued*
 income credited to, 47
 in mercantile house, 162
 leases, how treated in, 41
 of street railway, 439
 of trading company, 440
 on doubtful bills receivable, 586
 on insurance premiums paid, 586
- Profits
 affected by repairs and renewals, 36
 annual, how found, 146, 650
 at expense of depreciation reserve, 589
 auditor's certificate as to, 52
 average annual, 35
 falling off of, 211
 for current year from continuous accounts, 488
 from bond investments, 320
 inflation of, provision against, 301
 net, of manufacturing corporation, 38
- Property, uninsured, 238
- Public service corporation
 depreciation reserve of, 232
- Public utility corporation
 discounts and bad debts, 444
 revenues of, 444
- Purchases
 checking invoices of, 501
 fictitious, detection of, 93
 fraud in by vendor, 632
 not entered in books, 463
 prevention of fraud, 501
- R
- Railroad companies, steam
 audit of, for limited period, 225
 audit of net earnings, 20
 construction account, 21
 dividend cash deposited, as asset, 618
 earnings of, 321
 equipment and liabilities therefor, 407
 equipment destroyed, 22
 examination of accounts, 328
 expense for new stations, 364
 maintenance of equipment, 426
 preferred stock dividend as liability, 618
 purchases of, not entered on books, 463
 replacements, rules for, 240
- Railroad companies, street
 accounts for obsolete material, 472
 audit of earnings, 366
 chart of railroad accounts, 530
 classification of accounts, 527, 530
 collection of earnings, 366
 first annual audit, 439
 monthly adjustment of revenue, 466
 profit and loss account for, 439
 reserve for accidents, 461
- Raw material, detection of theft of, 23
- Real estate (See also "Real Estate Business")
 increased valuation in profit and loss account, 595
 investments in, verification of, 611
 mortgaged, in balance sheet, 219
 reduced values in profit and loss account, 595
- Real estate business
 accounts, audit of, 349
 audit of, 53, 248
 balance sheet of, 349, 568

(References are to question numbers)

- Real estate business—*continued*
 - bond issue against mortgages on, 398
 - enhanced values and book values, 575
 - expenses of, 374
 - financial statement of, 374
 - first audit of development company, 559
 - income account of, 349
 - sale of lots on contract, 391
 - sale of mortgage bonds, 391
 - sale of plots and acreage, 374
 - Reconcilement account with bank, 129, 235
 - Reconciliation of cash, 254
 - Registrar of corporation
 - audit when absent, 336
 - audit when present, 336
 - Relief association, audit of, 689
 - Renewals (See "Betterments")
 - Rent, in profit and loss statement, 600
 - Repairs (See "Maintenance")
 - Report of auditor
 - as affecting loans, new capital, or sales, 242
 - as to contemplated merger, 247, 267
 - in interest of purchaser, 532
 - on factory products, 241
 - on goods in inventory, 241
 - on grain exporting company, 532
 - on lumber company's statement, 657
 - supporting schedules to accompany, 582
 - when books are improperly kept, 332
 - when books are properly kept, 332
 - Reports from local accountants, 261
 - Reserve funds
 - abatement of cost credited to, 613
 - depreciation chargeable to, 434
 - distinguished from reserves, 132
 - investment of, 15
 - Reserves
 - distinguished from reserve funds, 132
 - for steamship company, 75
 - for telegraph company, 75
 - income on invested, 502
 - Reserves, secret
 - advantage and danger of, 553
 - auditor's duty toward, 553
 - auditor's view of, 170
 - Restaurant, fraudulent conduct of, 455
 - Revenue account
 - and expenditures, 73
 - items chargeable to, 42, 96
 - uncompleted contracts as items of, 159
 - Royalty
 - audit of inventor's account with, 292
 - capitalization of owned, 279
 - dividend on, 279
 - in annual statement, 87
 - in profit and loss statement, 600
- S
- Salaries
 - bonus for extra services, 37
 - chargeable to extensions or improvements, 451
 - of corporate officers, 57
 - overdrawn, 589
 - Sales
 - accounting for proceeds of, without checking, 590

(References are to question numbers)

- Sales—*continued*
 - amount of net, 199
 - audit of padded cash, 455
 - by consignee, book entries for, 31
 - cash, verification of, 106
 - increased at end of period, 503
 - omission in books, 5
 - returned, check on, 93
 - returned, in profit and loss statement, 600
 - time, fraud through, 315
- Salesmen, commissions of, 600
- Savings banks
 - audit of, 84, 677, 701
 - audit of, concurrent with examination, 675
 - verification of cash book, 683
- Secret reserves (See "Reserves")
- Securities
 - depreciation of as affecting report, 544
 - discounts and premiums on, 139
 - examination of, 19
 - fluctuating values of, in audit, 556
 - losses on paper compensated by earnings, 490
 - of insurance companies, 197
 - premium on purchase of, 588
 - registration of, 356
 - verification of, 123, 172, 585, 611
 - written-up values, 520
- Shares (See "Stock")
- Shareholders (See "Stockholders")
- Single-entry system, ascertaining profits under, 63
- Sinking fund
 - entries for, 637
 - for retiring bonds, 637
 - how set up, 113
 - use of, 113
- Social club, verifying cash of, 269
- Speculation
 - broker's statement to speculator, 688
- Statements
 - financial, for credit purposes, 628
 - of assets and liabilities, 669
 - of corporation treasurer, 687
 - profit and loss, errors in, 562
 - profit and loss, for trading and manufacturing business, 600
- Steamship companies
 - earnings, audit of, 419
 - fraud in trip statements, 419
 - reserves, 75
- Stock, capital
 - auditor's appraisalment of, 532
 - books and records for, 660
 - company's own, 273
 - in balance sheet, 54
 - issued at discount, 45
 - of insurance companies, 197
 - overissue of, 660
- Stock certificate book, audit of, 336
- Stock certificates
 - registration of, 356
 - transfer of, 252, 469
- Stock exchange broker (See "Broker, Stock Exchange")
- Stock exchange clearing house, 361
- Stockholders
 - capital and surplus accruing for minority, 617
 - interest on advances by, 495
 - preferred and common, 452
 - safeguarding interests of, 452
- Stock ledger, 82, 255
- Stock (merchandise)
 - correct inventory of, 480
 - inventory value of, 24
- Stock outstanding
 - amount of, 244

(References are to question numbers)

- Stock outstanding—*continued*
 proof of value, 158
 verification by transfer ledger, 309
- Stock, preferred
 dividends on, 471
 safeguarding holders of, 609
- Store, country
 trading orders for merchandise, 467
- Stumpage
 book value of, 521
 definition of, 521
- Subsidiary companies
 accounts with parent company, 614
 acquirement of, 652
 assets on books of controlling company, 207
 audit of, 551
 capital and surplus in balance sheet, 617
 capital stock of, without market value, 214
 central purchasing plant, 551
 expenditures on, 653
 outlays for, 702
 pay-roll advances, 551
 profits of, 209
 relation to parent company, 210
- Subsidiary ledgers, 224
- Supporting schedules, accounts covered by, 263
- Surplus
 accrued from royalties, 279
 decreased by debit to investment, 592
 dividends paid from, 338
- Suspense account
 accounts receivable in as assets, 281, 474
 entries in, 125
 good-will carried in, 471
- T**
- Tael, discount on exchange, 484
- Taxes
 accrued, in balance sheet, 459
 bank check as tax voucher, 246
 interest on overdue, 671
 return for corporation, 619
 return to commissioner of, 674
- Textile mills
 pay-rolls of, 372
 piece-work basis in, 372
- Theaters, audit of books and accounts, 648
- Theft
 detection of, 193
 of raw material, 23
 of stock, 150
 of tools, 184
 prevention of, 184
 through collusion of salesmen and cashier, 316
- Time-keeping system, 408
- Title
 charges for transfer, 613
 transfer of, 613
- Tools (See "Machinery")
- Trading accounts
 balance of, 44
 in mercantile house, 162
- Trading concerns
 audit of apparent defalcations, 362
 branch store accounts, 362, 468
 profit and loss account of, 507
 report on for bank, 440
- Transactions, miscellaneous
 correctness, how certified, 622
- Transfer book (ledger) and stock outstanding, 309
- Transfer books, auditor's view of, 166
- Treasurer, audit of receipts, 314
- Treasury stock, in balance sheet,

(References are to question numbers)

Trial balance
 compared with balance sheet, 49
 errors, detection of, 83, 118
 itemized for balance sheet, 635
 of grain company, 635
 of manufacturing company, 357

Trust company
 as trustee, 353
 audit of, 353
 books and accounts of, 399
 Trustee's accounts, audit of, 103

U

Unit of production, 668

V

Values, increased
 book entries of, 34
 on balance sheet, 34
 Values, cost and book, 606
 Verification of
 accounts payable, 576
 accounts receivable, 576
 balance sheet, 459
 bank loans, 194
 bills payable, 576
 bills receivable, 576
 bonds and stocks, 227
 building and loan accounts, 115
 cash, 101, 106, 177, 194
 discounts, 106
 inventories, 151
 journal entries, 229
 pay-rolls, 151
 returns and allowances, 106
 securities, 177, 194, 243
 social club cash, 269
 stock ledger, 255

Village accounts, verification of, 140

Vouchers

audit in absence of, 422
 audit of, 3, 313, 422, 581

bank check, for tax payments, 246
 cash, audit of, 67
 checks as, 60, 141, 226
 for disbursements, 581
 for labor costs, 74
 legality of form, 226
 receipted bills for unreceipted, 685
 reproduction and second passing of, 7
 reproduction, prevention of, 122
 unacceptable in corporation audit, 283

W

Wages
 audit of unclaimed, 551
 fraud in payment of, 17
 voucher for, 99
 Wasting assets, depreciation for, 529
 Water supply company
 auditor's failure to detect fraud, 664
 fraud in cash book of, 664
 registrar of, 664
 Wine and liquor accounts, 500
 Wool
 consigned to dealers, 339
 inventory of, 339
 purchases and sales of, 339
 received on consignment, 339
 Working orders, as proof of expenditures, 427
 Working papers
 for semiannual audit, 705
 preparation, arrangement and preservation of, 601
 Work in process, payments for in balance sheet, 32
 Work unfinished, credited to profit and loss, 482

THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW

AN INITIAL FINE OF 25 CENTS
WILL BE ASSESSED FOR FAILURE TO RETURN
THIS BOOK ON THE DATE DUE. THE PENALTY
WILL INCREASE TO 50 CENTS ON THE FOURTH
DAY AND TO \$1.00 ON THE SEVENTH DAY
OVERDUE.

JUL 16 1940

OCT 26 1944

29 Nov '49 BP

4 May 61 JO

REC'D LD

APR 20 1961

YC 24529

00 x
- mbr

312529

HF 5667
B4

UNIVERSITY OF CALIFORNIA LIBRARY

